BYRON SHIRE COUNCIL
AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

PUBLIC ATTACHMENTS
EXCLUDED FROM THE
AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING
AGENDA
OF 17 MAY 2018

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The Australasian LG Performance Excellence Program FY17

Byron Shire Council

PwC and Local Government
Professionals
Australia, NSW

15 December 2017

Local Government
Professionals
AUSTRALIA · NSW

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The Australasian Local Government Performance Excellence Program FY17

NSW FY17 local government highlights

8.9 FTE per 1,000 residents

Workforce costs

In surveyed NSW councils, there is a median of 8.9 FTE per 1,000 residents, declining by 4%, from 9.3 in FY16. Employee costs per 1,000 residents are a median of $765k and represent 37% of total operating expenses. There is minimal outsourcing spend on all service areas, comprising just 14% of total operating costs, compared to 29% in NZ councils.

Gender diversity

NSW councils have the lowest proportion of women in their employed workforce (40%), compared to the other jurisdictions, especially when compared to NZ councils with 58% female employees. The statistic in NSW councils reduces drastically when it comes to women progressing into senior management roles, with the median of 20% female CEOs and directors remaining static for 3 years now, compared to 33% in NZ councils.

Generational shift

NSW councils have the highest proportion of Baby Boomer staff, at 42%, compared to the other jurisdictions, although a shift in the generational headcount mix continues. Three years ago almost half of the NSW workforce were Baby Boomers and just 18% were Gen Y employees, but the Gen Y and younger cohort now represents almost a quarter of the workforce. However, Gen Y and younger churn, at 18%, remains remarkably higher than 10% churn for baby boomers and Gen X.

Leave management and overtime

It is time for NSW councils to implement an active leave management strategy: 40% of the NSW workforce has 4 or more weeks of accrued annual leave, and 28% have more than 12 weeks of long service leave accrued. When reviewed in conjunction with paid overtime hours per FTE, the wellbeing of the NSW workforce is brought into the spotlight; NSW councils have at least 2 times higher median annual overtime hours paid per FTE than any other jurisdiction, with 50 hours.

Talent strategy focus

We see NSW councils taking greater strides in managing the pipeline for future leaders, with 52% focused on targeting the pipeline of future leaders within their talent strategy, up from 45% in prior year. This is encouraging to observe given 54% of CEOs and 34% of directors will have the option to retire in 10 years.

Role of finance

61% of NSW councils are seeing the benefits that come from having a CFO who is part of the senior leadership team, however this remains low compared to 89% of NZ councils. The reduced interaction with senior management in some NSW councils is reflected in the lower effort directed at value–add business insight activities (22%), compared to 30% in NZ councils.

Corporate services

Of the four key corporate service areas in NSW councils, we see a decline in the number of customer service staff per 100 employees, now at 3.4 (down from 3.7 in FY16), and a slight upward shift to 3 IT staff per 100 employees (up from 2.9), with no change in Finance at 4.4 and HR at 2.4. The downward shift in customer service (CS) is also reflected in the median 2.4 CS FTE per 10,000 residents, compared to 2.7 in FY16.

NSW FY17 local government highlights

Online customer self-service

NSW councils are more likely to provide online application tracking (75% compared to 32% or less in other jurisdictions) and online library services (85% compared to 74% in both WA and NZ councils). However, we notice NSW councils (67%) lagging behind the other jurisdictions with the offering of online payments, compared to 94% of WA, 89% of NZ and 82% of SA councils.

Formal IT strategy

We see 61% of NSW councils realising the value of having a formal IT strategy in place (up from 55% in FY16), compared to just 36% of SA and just over half of NZ and WA councils. Focus on a digital strategy is critical and this is reflected in the effectiveness of IT systems, with 31% of NSW councils rating their systems as effective, compared to just 18% of SA and 22% of WA councils. Despite this, ongoing opportunity exists for the 62% of NSW councils rating their systems as adequate, and especially the 7% with widespread dissatisfaction and concern.

IT priorities over the next three years

A higher proportion of NSW councils are placing emphasis on *technologies to enable better remote access for staff* (62%) and *improve staff collaboration within the office* (52%). Since the prior year, we now see *automating internal operational processes for enhanced service delivery* being ranked in the top 3 IT priorities, with 47% of NSW councils focused on this area. This means *online customer self-service* (34%, down from 37% in prior year) is now in fourth place.

Service delivery

Looking at services that most NSW councils have in common, and are outside of the essential high cost delivery of waste and roads, we observe $72 per resident in *parks and gardens*, $47 in *cultural and community services* (CSC), $46 in *town planning*, and $41 in *libraries*.

Risk management

85% of NSW councils have an established risk committee, compared to 100% in all other jurisdictions. While we now observe 51% of NSW councils using key risk indicators to measure and monitor risk (up from 43% in FY16), this is low compared to 82% of SA and 74% of WA councils. In addition, with only 34% of NSW councils reporting risk to council at least quarterly, this is low, especially compared to 59% of NZ councils.

Internal audit

It is encouraging to see that 82% of NSW councils have some form of internal audit function, whether it's wholly outsourced (44%), internal (15%) or a combination of both (23%). The proportion of NSW councils operating an IA function is high, compared to NZ (63%) and WA (68%) and goes some way to mitigating the risk in NSW around the lack of established risk committees (85%, compared to 100% in other jurisdictions).

Asset management

Just 55% of NSW councils have a strategic asset management plan that links to the financial long term plan, compared to 76% of SA and 80% of NZ councils. We continue to see a lower proportion of NSW councils (74%) with an asset management system in the category of *Road networks*, compared to 100% of NZ, 91% of WA and 88% of SA councils.

Contents

Sharing results with third parties

This report has been provided to each participating council so that a participating council can understand how it compares to the aggregated findings and for no other purpose. The report is intended for the participating council recipient only.

This report, including all data and comparative insights contained in it, is confidential to PwC and the participating council. Except as set out below, the report should not be disclosed in whole or in part to another person unless agreed with PwC and the council.

As agreed in the survey agreement with the participating councils, each participating council is permitted to share the report with third parties as part of a council meeting, on a council website, or with other Participating Councils provided it is shared in its entirety and the following words are included with the report when the report is provided:

"The information, statements, statistics and commentary contained in this report are of a general nature and have been prepared from data provided by Participating Councils. The reliability, accuracy or completeness of this information has not been independently verified.

Accordingly, whilst the statements made in this report are given in good faith, no one should act on the basis of this report without obtaining specific advice and neither LG Professionals, NSW nor PwC accepts any responsibility for the consequences of any person's use of or reliance on the report (in whole or in part) or any reference to it."

Methodology

PwC and LG Professionals, NSW are pleased to release the fifth report as part of the Australasian LG Performance Excellence Program. This year we extend a warm welcome to our new councils - 17 in South Australia, 5 in New Zealand, 1 in Queensland and 13 in New South Wales including 7 newly amalgamated councils in New South Wales.

The purpose of the program is to assist councils better communicate, control and manage their internal business performance with their stakeholders through the use of comparative data analytics. During the program, PwC collects data from participating councils and then transforms this data into key metrics, identifying trends and observations that focus on operational and management excellence.

The benefits to councils include the ability to monitor and manage their internal business performance over time, as well as improve the prioritisation of change based on data-driven decision making. Each year councils obtain a report with customised charts and contextual commentary as well as access to the interactive data explorer platform.

In providing the current comparative insights, PwC is drawing on its extensive experience with local government and in developing, delivering and analysing a variety of business process data collections across multiple industries. The process we undertook to produce this customised insights report for each participating council is outlined below.
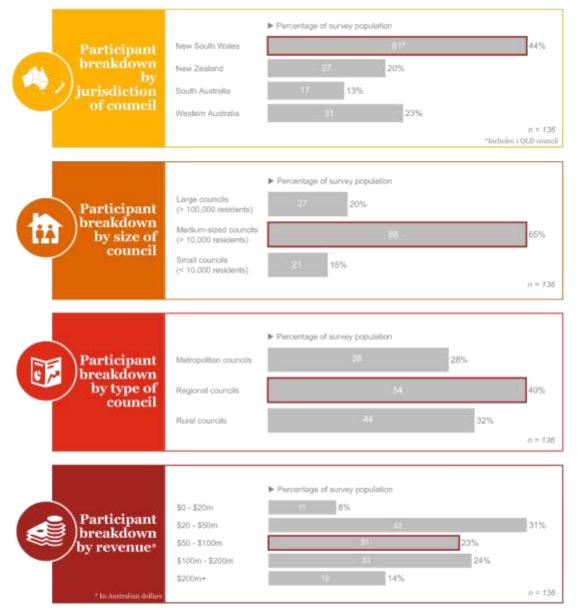
How the report was produced:

Participants
- 60 NSW councils, 27 NZ councils , 17 SA councils, 31 WA councils and 1 QLD council participated in the FY17 program. For the purpose of maintaining anonymity, we have included the QLD council data as part of NSW.
- The data collection comprised of quantitative and qualitative data elements.
- Throughout the process, each council's identity and information was kept confidential via PwC's secure online platform, Datapoint.

Data collection and submission feedback
- The data collection for the 2016–17 financial year was launched in July 2017, and data was collected and amended over a three to four month period using Datapoint.
- After the initial data submission, councils received a data submission feedback pack highlighting their key metrics in chart format so they could check and verify the data.
- Councils had an opportunity to amend their data before the council–nominated 'Superuser' approved the final submission.
- Individual council results were known only to the members of the PwC analytics team working on this engagement.

Analysis
- Once the data collection and feedback period finished, the PwC analytics team began its extensive analysis of the data set.
- To enable relevant comparisons, we adjusted financial data for NZ councils to reflect A$ using the average NZ exchange rate across FY17.
- Subject-matter experts from PwC and LG Professionals, NSW guided the interpretive analysis and provided commentary on the results, as well as insights drawn from the global PwC network.

Reporting and data explorer website
- The results reflect the 2016–17 financial year, based on data collected from all 136 councils.
- Each participating council has received a customised insights report that compares its business performance to that of the survey population across a range of areas.
- The reports are presented in a non-identifiable way; councils only see their results in relation to the sample population.
- These insight reports represent a starting point for further discussions, rather than a conclusive assessment in any particular area.
- Along with this report, councils will be able to further explore, filter, compare and extract key metrics using the Council Comparative Analysis Tool (CCAT), accessed via Datapoint Explore.

Councils that subscribe to the Regional Tool and give their consent for other councils in their nominated region/cluster to view their results, will also have access to this view within the CCAT.

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Survey population

This insights report is based on data collected from 136 councils across NSW, WA, SA and New Zealand. Throughout this report, participating councils have been identified by their jurisdiction, size of the resident population (small, medium or large), and the type of council (metro, regional or rural).

To group councils by size, we used the estimated 2016 resident population provided by the Australian Bureau of Statistics (for NSW/SA/WA/QLD councils) and the 2016 resident population provided by Statistics New Zealand (for NZ councils). Councils have been classified as Large if they have more than 100,000 residents, Medium for residents between 10,000 to 99,999, and Small for fewer than 10,000 residents.

To classify councils as either Metropolitan, Regional or Rural, we used the Office of Local Government allocation for NSW councils, and for WA, SA and NZ councils we consulted LG Professionals, WA/SA and SOLGM and allocated councils as follows: Metro councils are typically city councils; Regional councils are the next tier, located outside the main cities, with a reasonable sized population; and Rural councils are generally small and not considered a regional centre.

Participant breakdown by jurisdiction of council

▶ Percentage of survey population

New South Wales	61*	44%
New Zealand	27	20%
South Australia	17	13%
Western Australia	31	23%

n = 136
*Includes 1 QLD council

Participant breakdown by size of council

▶ Percentage of survey population

Large councils (> 100,000 residents)	27	20%
Medium-sized councils (> 10,000 residents)	88	65%
Small councils (< 10,000 residents)	21	15%

n = 136

Participant breakdown by type of council

▶ Percentage of survey population

Metropolitan councils	38	28%
Regional councils	54	40%
Rural councils	44	32%

n = 136

Participant breakdown by revenue*

▶ Percentage of survey population

$0 – $20m	11	8%
$20 – $50m	42	31%
$50 – $100m	31	23%
$100m – $200m	33	24%
$200m+	19	14%

* In Australian dollars

n = 136

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Understanding this report

PwC and LG Professionals, NSW's Performance Excellence Program FY17 is customised for individual survey participants. All charts within the report represent the individual council's results relative to the survey population that responded to that particular question.
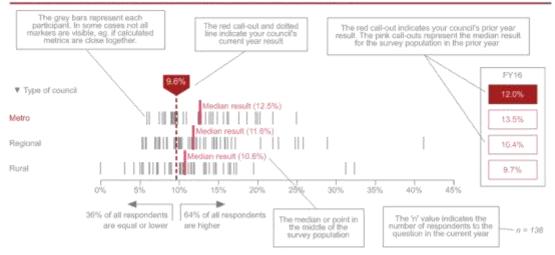
The commentary provided in the report has been prepared for the overall program and while it does not change for each council, it should provide relevant information to help each council understand the context of its own results.

For each response to a question, your council's input is displayed in red (indicated by the legend). To help you understand changes from the previous report, the majority of charts within this report also show the results from the 2015–16 financial year, for your council and the survey population.
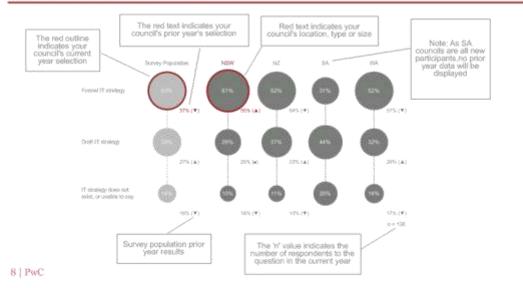
If no input was recorded by your council for this year and/or last, the red indicator will be missing from the charts and the result for the overall population will be displayed.

We have developed some customised charts for this report, to allow us to convey rich and detailed information. We have provided further explanation below on how to interpret the distribution and bubble charts throughout the report.

Figure 1.16: Staff turnover rate (excluding fixed-term contract employees)

Figure 3.5: Leading councils have an IT strategy

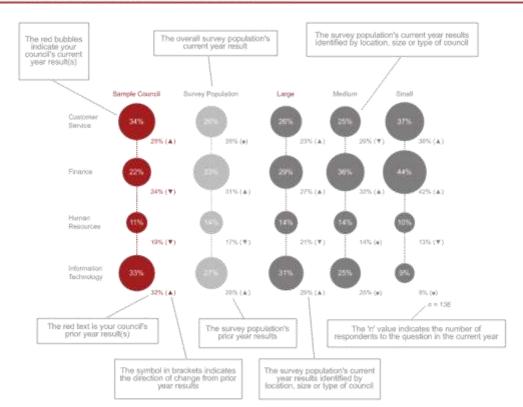8 | PwC

Understanding this report

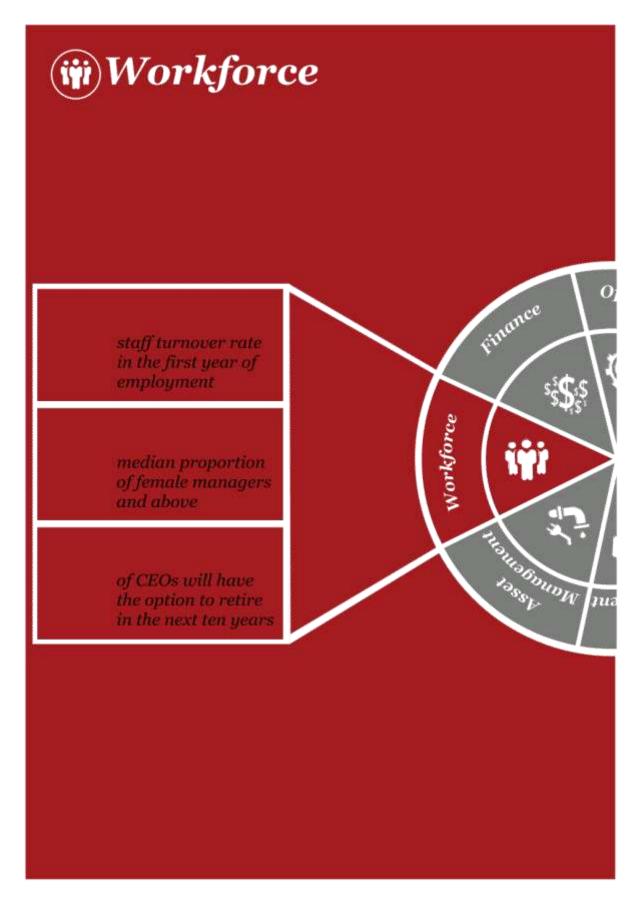**Figure 4.1: Breakdown of corporate service full time equivalents**

Before reading this report, it is important to note that it is not an in-depth customised analysis or review of each council's business operations. Instead, it reflects your council's results in relation to the total survey population. Participating in the LG performance excellence program should allow councils to:

- evaluate their own practices to better understand current operational and management performance
- identify areas of focus when striving to optimise operational excellence
- understand how businesses – and in some cases international businesses – perform in terms of workforce, operations and finance using results from similar surveys conducted by PwC globally.
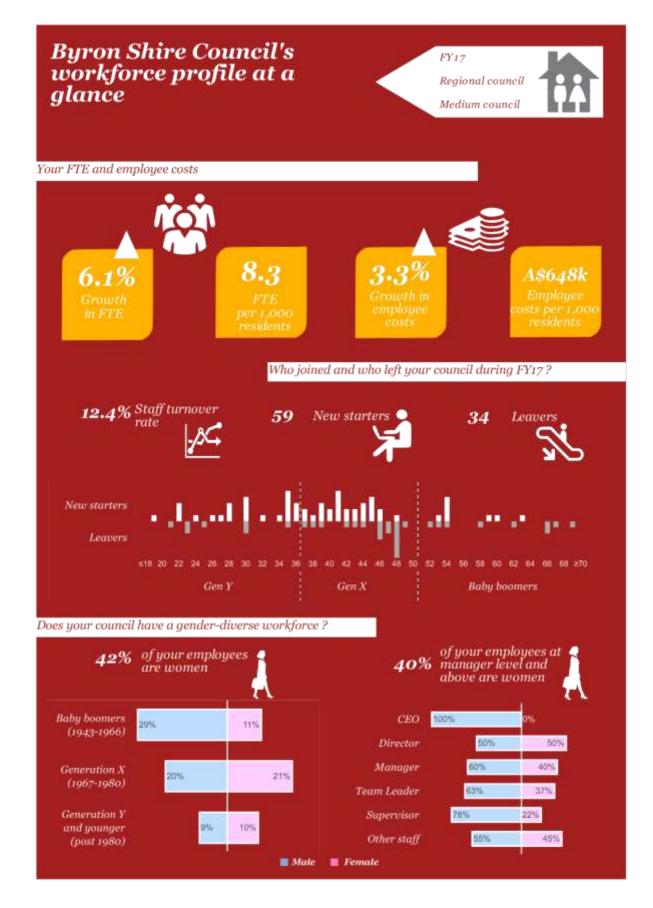
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Byron Shire Council's workforce profile at a glance

FY17
Regional council
Medium council

Your FTE and employee costs

6.1% Growth in FTE

8.3 FTE per 1,000 residents

3.3% Growth in employee costs

A$648k Employee costs per 1,000 residents

Who joined and who left your council during FY17?

12.4% Staff turnover rate

59 New starters

34 Leavers

New starters
Leavers

≤18 20 22 24 26 28 30 32 34 36 38 40 42 44 46 48 50 52 54 56 58 60 62 64 66 68 ≥70

Gen Y   Gen X   Baby boomers

Does your council have a gender-diverse workforce?

42% of your employees are women

	Male	Female
Baby boomers (1943-1966)	29%	11%
Generation X (1967-1980)	20%	21%
Generation Y and younger (post 1980)	9%	10%

40% of your employees at manager level and above are women

	Male	Female
CEO	100%	0%
Director	50%	50%
Manager	60%	40%
Team Leader	63%	37%
Supervisor	78%	22%
Other staff	55%	45%

■ Male   ■ Female

Workforce

Workforce Trend Summary
Byron Shire Council

● NSW Survey population ● Byron Shire Council	FY14	FY15	FY16	FY17	Change from FY16 to FY17
1. FTE per 1,000 residents	8.5 / 7.5	8.2 / 7.8	9.3 / 7.9	8.9 / 8.3	▲0.4 / ▼0.4
2. Remuneration as a percentage of operating expenses	36% / 27%	38% / 25%	37% / 28%	37% / 29%	▲1% / ■0%
3. Overtime A$ per FTE	$3,457 / $2,425	$3,730 / $2,464	$2,923 / $2,344	$3,387 / $2,388	▲$1 / ■$0
4. Span of control ('Other staff' per manager)	4.2 / 3.5	4.5 / 3.5	3.8 / 3.0	3.3 / 3.1	▼0.5 / ▲0.1
5. Rookie rate (percentage of new employees in past 2 years)	21% / 17%	18% / 18%	26% / 18%	33% / 19%	▲7% / ▲1%
6. Staff turnover rate	14% / 11%	11% / 11%	20% / 11%	12% / 12%	▼8% / ▲1%
7. Staff turnover rate in first year of employment	18% / 15%	18% / 13%	19% / 16%	15% / 11%	▼8% / ▼1%
8. Gen Y staff turnover rate	55% / 20%	30% / 21%	34% / 18%	18% / 18%	▼16% / ■0%
9. Female staff turnover rate	23% / 13%	17% / 12%	26% / 12%	17% / 14%	▼9% / ▲2%
10. Female managers and above	31% / 19%	29% / 27%	38% / 31%	40% / 29%	▲2% / ▼2%

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Workforce

Workforce Trend Summary
Byron Shire Council

NSW Survey population / Byron Shire Council	FY 14	FY 15	FY 16	FY 17	Change from FY16 to FY17
11. Baby boomer employees	54% / 49%	49% / 46%	44% / 44%	42% / 40%	▼4% ▼2%
12. Gen X employees	38% / 33%	39% / 34%	41% / 34%	41% / 34%	■ 0% ■ 0%
13. Gen Y employees	18% / 9%	20% / 12%	22% / 15%	24% / 19%	▲4% ▲2%
14. Succession planning program established		No 80% (No)	No 87% (No)	No 89% (No)	
15. Workforce with more than 8 weeks of accrued annual leave	12% / 9%	12% / 8%	11% / 10%	12% / 10%	■ 0% ▲1%
16. Workforce with more than 12 weeks of accrued long service leave	28% / 25%	28% / 24%	28% / 22%	26% / 18%	▼4% ■ 0%
17. Median sick leave days taken across your workforce	5.5 / 4.5	7.6 / 6.1	6.3 / 5.6	6.4 / 6.4	▲0.8 ▲0.1
18. Actual training spend per FTE (A$)	$1,367 / $935	$1,189 / $904	$1,435 / $1,045	$1,536 / $997	▲$101 ▼$48
19. Supervisors and above with a formal annual performance appraisal	66% / 42%	74% / 39%	68% / 14%	66% / 15%	▲1% ▼2%
20. Lost time injury days per 100 employees	45 / 41	90 / 40	67 / 18	63 / 43	▲25 ▼4

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Workforce

Workforce structure and cost impact

Employee costs

Talented, motivated people are vital to achieving high performance, particularly in service-based organisations. So it is critical to engage with your employees and to foster a culture where a customer-centric mindset is top of mind. This extends beyond skills and experience; the ask is now for employees to constantly anticipate customer needs and look for creative and innovative ways to delight and engage with the community they serve. People represent the largest expenditure area, and the most important productive asset, of every council.

Our findings show that the overall median council total employee costs remain relatively constant, comprising 35% of total operating expenses (down from 36% in the prior year). Interestingly, this proportion remains constant across all council jurisdictions with prior year comparatives (NSW, NZ and WA councils).

There remains a stark difference in this measurement between Australian and New Zealand councils. While the median council employee costs across the Australian councils range from 35% in SA, to 37% in NSW and 40% of total operating expenses in WA councils, NZ councils remain lower at 22%.

There are a range of factors driving this difference. This may be due to the greater extent of outsourcing of council services in NZ, and the different scope of services delivered (for example provision of water by some councils in NZ). NZ councils spend 29% of operating expenses on outsourcing of services. In comparison, both NSW and WA councils spend around 15% of operating expenses on outsourced delivery, and 17% in SA councils.

Our 'employee cost share of total expenses' result links to the higher median full-time equivalent (FTE) per 1,000 residents in NSW councils of 8.9 FTE, 6.4 FTE in SA and 5.5 FTE in WA councils, compared to 5.1 FTE in NZ councils.
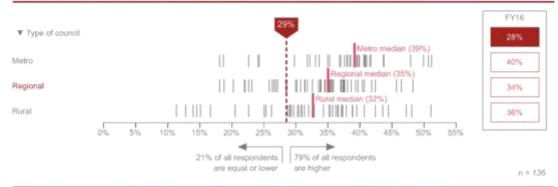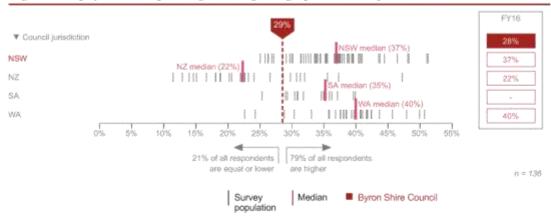

Closing FTE per 1,000 residents

5.5   6.4   8.9   5.1

Figure 1.1: Employee costs as a percentage of total operating expenses (type of council)

FY16: 28%, 40%, 34%, 36%

21% of all respondents are equal or lower | 79% of all respondents are higher

n = 136

Figure 1.2: Employee costs as a percentage of total operating expenses (council jurisdiction)

FY16: 28%, 37%, 22%, -, 40%

21% of all respondents are equal or lower | 79% of all respondents are higher

n = 136

Survey population | Median | Byron Shire Council

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Workforce structure and cost impact

Overtime

Although overtime can be an effective way to have experienced resources on hand, especially when dealing with seasonal fluctuations in workloads, it is important that overtime is managed carefully through appropriate resourcing and project management to avoid it becoming an unnecessary or unexpected drain on council funds.

Our survey shows that the median council spend on overtime for permanent and fixed-term contract employees as a percentage of total salaries and wages is now 1.8%. This result continues to fall each year, down from 2.1% in FY16, and 3.0% in FY15.
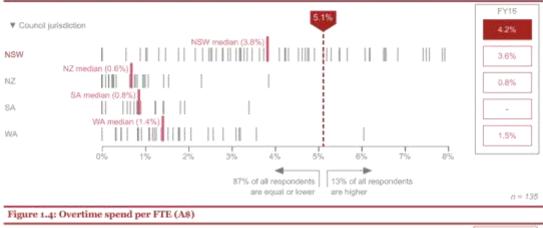
In NSW, however, the median overtime as a percentage of total salaries (3.8%, up from 3.6%) is more than double the overall median. It is possible the impact of recent merger activity on existing workloads has led to the use of overtime as a resourcing strategy; supported by minimal growth in

NSW council headcount (0.8%). However, use of overtime on an ongoing basis should be monitored in NSW councils, especially when compared to a lower median of 0.8% in SA, 1.4% in WA and 0.6% of total salaries in NZ councils.
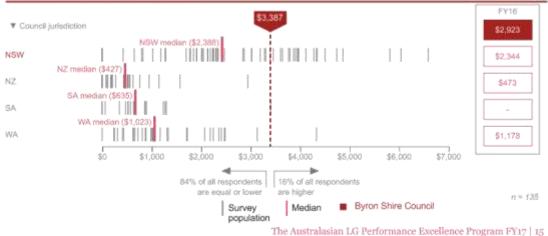
Looking at this in another way, we observe the NSW median council overtime spend per FTE of A$2,388, compared to the median SA council with just A$635 and the median WA council at A$1,023. NZ councils continue to operate with the lowest median spend of around A$427 per FTE. This is likely due to the difference in the industrial salary awards across the Tasman, and the much higher rate of outsourcing within functions that traditionally utilise overtime as part of the resourcing strategy.

The Council Comparative Analysis Tool (CCAT) provides participating councils with the ability to create their own comparative groups to assess their use of

overtime against councils with comparable services, industrial frameworks and local labour markets.

Your FY17 overtime spend per FTE was
$3,387

NSW councils' FY17 median overtime spend per FTE
$2,388

Figure 1.3: Paid overtime as a percentage of total salaries and wages (council jurisdiction)

▼ Council jurisdiction

5.1%

	FY16
NSW	4.2%
NSW median (3.8%)	3.6%
NZ median (0.6%)	
NZ	0.8%
SA median (0.8%)	
SA	-
WA median (1.4%)	
WA	1.5%

87% of all respondents are equal or lower   13% of all respondents are higher

n = 135

Figure 1.4: Overtime spend per FTE (A$)

▼ Council jurisdiction

$3,387

	FY16
NSW	$2,923
NSW median ($2,388)	$2,344
NZ median ($427)	
NZ	$473
SA median ($635)	
SA	-
WA median ($1,023)	
WA	$1,178

84% of all respondents are equal or lower   16% of all respondents are higher

n = 135

Survey population | Median | ■ Byron Shire Council

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Workforce

Workforce structure and cost impact

Agency Staff

Policies around the use and management of agency staff are an important consideration of a council's overall resourcing strategy. Agency staff provide councils with the ability to access additional resources (as opposed to using overtime as a way to supplement heavier workloads).

This is illustrated by metro councils who continue to rely more heavily on agency staff (2.4% median spend), compared to regional (1.1%) and rural councils (0%).

Our survey results continue to show the clear distinction between Australian and NZ councils in the use of agency staff.

Just over half of the surveyed NZ councils reported zero agency spend in FY17, explaining the median result of 0%. In contrast, we observe SA councils most likely to use agency staff, with a 2.6% median agency spend as a percentage of total employee costs.

This is followed by a median spend of 1.6% in NSW and 1.2% in WA councils. In FY17, only NSW councils increased their agency staff spend percentage, from 1.2% in FY16.

It is important that clear policies and procedures on the use of agency staff are established and agreed. In addition, it is good practice to monitor the costs incurred regularly, especially across the different service areas. This is to ensure current and future business and resourcing requirements are being managed appropriately.

Key considerations

- Are you actively assessing overtime levels by staff level, service area and manager group? Are there specific areas that dominate?

- Are you providing staff with the right training and resources to reduce unnecessary overtime?

- If you are using agency staff, have you recently reviewed your agreement with your preferred recruitment agencies to ensure you have negotiated the best possible rates?

- Does your council correctly balance the investment in its own workforce with flexible resourcing options?

Figure 1.5: Agency staff spend as a percentage of total expenditure on employees and agency staff (type of council)
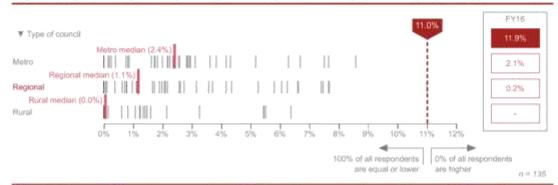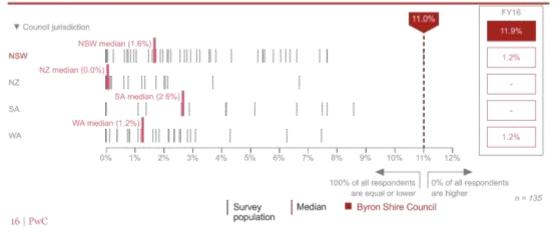

Figure 1.6: Agency staff spend as a percentage of total expenditure on employees and agency staff (council jurisdiction)

Workforce

Organisational design

Span of control

The structuring of workforce requirements is often dictated by an assessment of the complexity of work and the associated risk levels involved when performing certain tasks. This assists organisations to determine the optimal size of management and to design teams with a blend of skills; both technical and management experience.

Our 'Span of control' metric can be used to monitor management overhead, as it measures the number of employees ('other staff' in our survey) as a ratio of the management population ('supervisors and above' in our survey). A higher span of control indicates reduced layers of management, which at its best can give staff more autonomy and on-the-job career development opportunities.
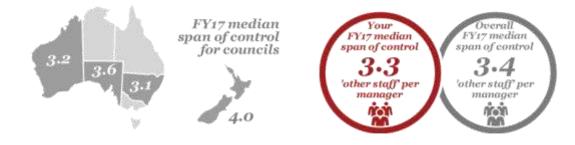
Our survey reveals that the overall median span of control has expanded slightly, suggesting a small decrease in management layers. In FY17, a median of 3.4 'other staff' per supervisor and above was calculated, compared to 3.1 in the prior year.

This is a result mainly from the change seen in NZ staff to supervisor and above (median 4.0, up from 3.7), with a smaller change in NSW councils (median 3.1, up from 3.0 in the prior year). On the other hand, the median result of 3.2 for WA councils is slightly lower compared to 3.3 in the prior year. Interestingly, SA councils join the program with a median of 3.6 'other staff' per supervisor and above, the highest result across Australian councils.

While we continue to see large councils being more likely to have larger spans of control, taking advantage of their geographic location and scale of operations, the median result of 4.0 'other staff' per supervisor and above has fallen, when compared to 4.3 in FY16, and 4.8 in FY15. Some 'grade inflation' may be occurring within the stable workforces of these councils - an issue to watch for as it drives cost pressure without necessarily impacting the potential output of the workforce.

Despite the span of control in small councils remaining low, with a median of 2.9 'other staff' per supervisor and above, the upward trend is encouraging; back in FY14, the median in small councils was 2.4 and it has continued to increase each year.

Local government will be looking to carefully manage costs, improve the speed of decision making, support staff development and, importantly, enhance responsiveness to market changes by having the right skills in place.

Definition

Span of control: Total number of 'other staff' per manager (defined as supervisors and above).

FY17 median span of control for councils

3.2 | 3.6 | 3.1 | 4.0

Your FY17 median span of control
3·3
'other staff' per manager

Overall FY17 median span of control
3·4
'other staff' per manager

Figure 1.7: Span of control ('other staff' per manager)

FY16	
	3.8
Large	4.3
Medium	3.3
Small	2.7

48% of all respondents are equal or lower

52% of all respondents are higher

n = 136

Survey population | Median | ■ Byron Shire Council

Organisational design

Staff level mix

The charts on this page further explain span of control and enable councils to better understand how their staff level mix compares to the survey population, as well as size of council.

Following on from our analysis on span of control, we see a higher proportion of supervisors and above in small and medium-sized councils, representing around a quarter of the total workforce, compared to just 19% in large councils. This is an expected result, given the smaller functional team size in these councils, combined with the consistent requirement for expertise and competence within each function.

Interestingly when compared to prior years, we see smaller councils increasing their percentage of 'other staff', which is reflected in the increased span of control. This shift may allow staff within smaller councils to increasingly work autonomously, exercising their innovation, creativity and skills.

Definitions for the staff levels used in our study are located in the final section of this report.

Key considerations

- Are you building an adequate pool of talented managers who can be used across your organisation to manage larger groups of staff and give you more flexibility in your resourcing, and your people more opportunities?

- Do you have the right staff mix so ambitious and talented staff are able to navigate a clear pathway to management?

- Are your managers mentoring others in the organisation as a way to build a generalist capability and be a role model for others?
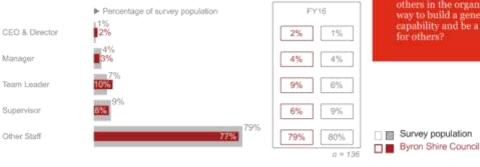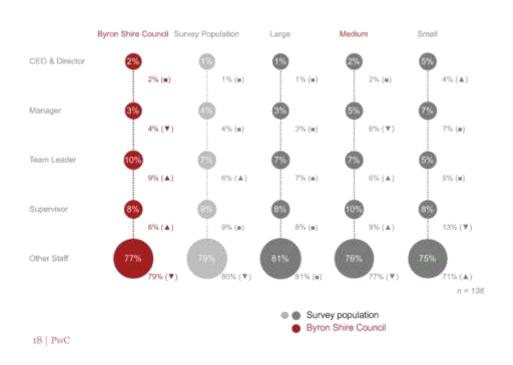
Figure 1.8: Staff level split

Figure 1.9: Staff level split (size of council)

Workforce

Don't fall short on new talent

Rookie rate

The rookie rate – the proportion of employees who are new to councils in the past two years – shows that the previous upward trend in the median rookie rate over the years has stabilised, remaining at 23%.

However, the vast difference in the volume of new talent joining the management ranks, compared to those joining the 'other staff' level remains prevalent. For supervisors and above, the median council rookie rate shows 15% of people in these levels having two years or less experience, compared to 25% of 'other staff'.

Despite reform in NSW local government, we continue to see a very low median rookie rate for supervisors and above (11%), compared to NZ (20%) and WA (20%) councils. Similarly, SA councils are less likely to integrate new management

talent into the existing workforce, with a median rookie rate of supervisors and above of 13%.

We acknowledge the need to maintain a reasonable level of management stability in order to retain organisational knowledge and relevant experience. However, it is rare for an organisation to escape the value in the potential benefits that come from introducing new talent with the altering of team dynamics that can lead to fresh, innovative ideas.

The 2017 PwC Global CEO Survey, which surveyed 1,379 global CEOs in 79 countries, shows that skills remain at the top of CEO's agenda, with 77% of CEOs saying that they see the availability of key skills as the biggest business threat (ahead of the speed of technological change and changing customer behaviour).[1]

Somewhat surprisingly, CEOs see the 'soft' skills as more important and more difficult to find than STEM and digital skills. These 'soft' skills, such as adaptability, problem-solving, creativity and leadership, are seen to stimulate innovation and collaborative spirit.

Definition

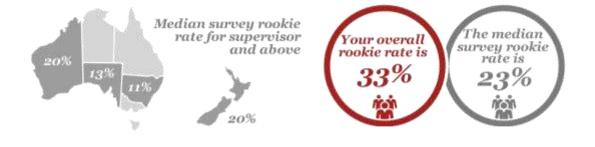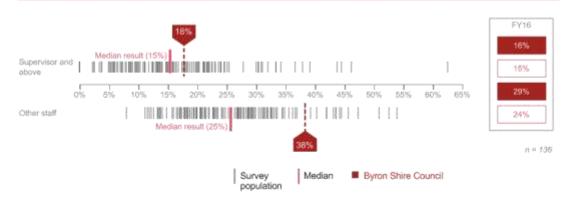**Rookie rate**: Proportion of staff who commenced in the past two years.

Figure 1.10: Rookie rate by staff level (proportion of staff who commenced in the past two years)

1 PwC, 2017, 20th Annual Global CEO Survey, 'The talent challenge: Harnessing the power of human skills in the machine age'.

The Australasian LG Performance Excellence Program FY17 | 19

Workforce

Don't fall short on new talent

Corporate services rookie rate

Councils should be continually assessing their current talent management strategies, and establish a structured resourcing plan on how best to attract employees with the required skills, considering both technical and 'soft' skills.

In our program we focus on four corporate services areas – customer service, finance, HR and IT. The spread in median rookie rate has decreased from prior year, ranging from 20% in HR and finance, 22% in IT and up to 23% in customer service.

From the commencement of this program in FY14, we have been highlighting the need for fresh HR talent. Since then, the recruitment of HR employees has increased each year, evidenced by the median rookie rate of 25% of new HR employees in FY16, up from 17% in FY14. However, the HR rookie rate has now returned to a median of 20% employees with two years or less experience.

Improving digital and technological capabilities is one of the top five business priorities for CEOs.[2] Part of achieving this goal for councils will be bringing in new skills and new talent. It is encouraging therefore to see that the rookie rate in IT has increased to a median of 22%, up from 19% in the prior year. This indicates the potential for new talent and new ideas to come into IT. A new blend of skills should assist councils to obtain the benefits from technology that other sectors are obtaining, improving both the employee and customer experience.

Recruiting new talent into finance has been a focus over the years, with a median rookie rate of 14% in FY14, growing to 18% in FY15 and then stabilising at 20% in both FY16 and FY17. This may be associated with our metric in Figure 2.1, where 72% of councils now have a CFO acting as a true business partner, up from 43% in FY14.
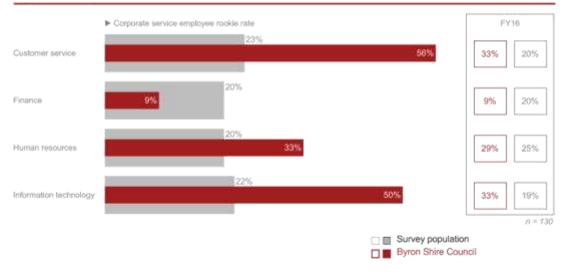
Although we observe more new employees in customer service, with the median rookie rate growing from 20% in FY16 to 23% in FY17, this is in line with the rise in the turnover rate in this area. This suggests a level of replenishment due to the rise in turnover, as opposed to growth.

We continue to encourage all councils to examine their existing talent pool and future skill requirements to ensure these vital corporate functions are staffed with the skills to be successful in supporting the council in delivering services demanded by the community into the future.

Key considerations

- Are you focused on recruiting staff who can be involved in building a dynamic, adaptable and flexible workforce, with the right skills and talent?

- Are you carefully considering how you attract the right mix of talent across all areas of the council?

- Are you developing a talent management strategy that responds to market changes, emerging customer needs and digital transformation?

- When recruiting for different roles, do you put enough weighting on generalist skills versus specialist local government skills? Do you put enough weighting on 'soft' skills versus technical skills?

Figure 1.11: Corporate service rookie rate

▶ Corporate service employee rookie rate

	Survey population	Byron Shire Council	FY16	
Customer service	23%	56%	33%	20%
Finance	20%	9%	9%	20%
Human resources	20%	33%	29%	25%
Information technology	22%	50%	33%	19%

n = 130

☐ ▨ Survey population
☐ ▪ Byron Shire Council

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2 PwC, 2017, 20th Annual Global CEO Survey, 'The talent challenge: Harnessing the power of human skills in the machine age'.

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Attracting, retaining and engaging talent

Talent strategy

Employees gain skills and experiences over time that give many workers choice and opportunity to change roles, employers and careers, and this is why it is vital for organisations to present a strong employment industry brand to attract talent across the mix of skills required.

Global CEOs who participated in the 2017 global PwC CEO survey have identified the skills shortage as a key concern; 77% name it as a threat to their business, compared with 56%, just six years ago.[3] The study goes on to find that 78% of these CEOs have changed their people strategy to reflect the skills and employment structures they need for the future.[4]

In local government, we continue to see three top areas of focus in the talent strategy; workplace culture and behaviours (88%), skills and adaptability
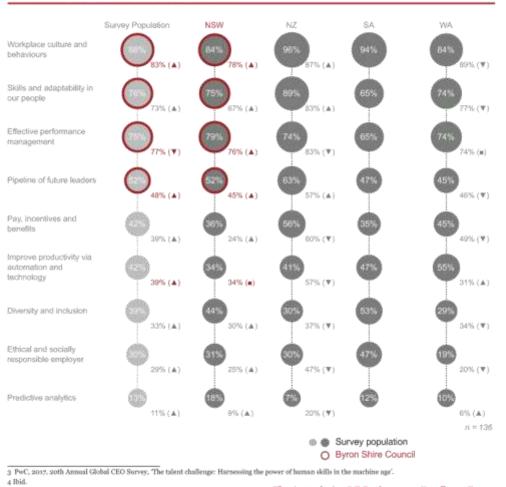
in people (76%, now in second place), and effective performance management (75%, dropped from second to third place).

While these areas are extremely important as part of any organisation's talent strategy, they are focused on the present, rather than planning for the future. A focus on future leader pipeline is in fourth place, however, we see just over half of the councils (52%) making changes to their talent strategy to create impact for this very important next step in resource planning. Likewise, 42% are focused on productivity through automation and technology; another area that requires change to the talent strategy for the digital transformation taking place.

Interestingly, across NSW councils we see great strides taking place in managing the pipeline for future leaders, with 52%

focused in this area, up from 45% in the prior year. NZ councils are also focusing heavily here, with 63%, up from 57% a year ago. It is encouraging to see WA councils honing in on the important area of improved productivity via automation and technology; 55% are now changing their talent strategy to accommodate this area, up from 31% a year ago.

In the 2017 PwC global CEO survey, 87% of CEOs said they actively promote diversity and inclusion within their people strategy.[5] This is an important area where local government bears a special responsibility to lead. However, our results show this is an opportunity for improvement, especially for NZ (30%), WA (29%) and NSW (44%). SA councils are more likely to focus in this area, with 53% doing so.

Figure 1.12: Areas of focus in the talent strategy

3 PwC, 2017, 20th Annual Global CEO Survey, 'The talent challenge: Harnessing the power of human skills in the machine age'.
4 Ibid.
5 Ibid.

Workforce

Are you recruiting staff with a diverse career background and gender?

New starter career backgrounds

When preparing for a recruitment campaign or designing new roles within local government, it is important to search for, interview, and ultimately recruit, employees with a diverse range of skills and experience. Relevant industry experience is always attractive and can make for an easy transition for new employees. However, there is also merit in recruiting employees from vastly different industry backgrounds to foster a culture of fresh and innovative perspectives.

We asked councils to tell us more about their new starters such as whether they come from local government, state or federal government, or other. We also included a category called 'unknown' for those councils that do not record the previous employment history of their new employees.

Interestingly, Australian councils are far more likely to see movement of staff between councils, compared to NZ councils. This is demonstrated by 12% of new starters in SA recruited from the local government sector, 14% in NSW and 17% in WA, compared to just 4% in NZ councils. New starters in NZ councils (76%) are more likely to come from outside of government suggesting greater access to a broader range of skills, but a more limited transfer of industry knowledge.

It should be noted that 61% of SA councils do not capture prior employment history for new starters. This is a missed opportunity for SA councils to be able to easily and quickly tap into prior skills or other industry knowledge, as well as analyse this information in order to determine how prior experience may affect the recruiting, onboarding and ongoing performance of staff.

Figure 1.13: Proportion of new starters from the local government sector

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Are you recruiting staff with a diverse career background and gender?

Recruitment gender diversity

Local government has been moving towards gender equality in recruitment practices since FY14, and in FY16 gender equality in recruitment was established. In FY17, we now observe more women than men being recruited into councils, with an overall median of 52% female new starters.

The increase in female new starters is present across all council jurisdictions. NZ councils continue to be more likely to recruit females, with a median of 61% female new starters, up from 57% in the prior year. This links to the higher overall female workforce in NZ councils as explored in the Gender Diversity section within this report.

The recruitment of females across WA councils has also grown, with a median of 53% females, compared to 50% in the prior year. NSW councils have increased the proportion of females being recruited, with a median of 45% (up from 43%), but

it still remains the lowest of the council jurisdictions. SA councils are closer to gender equality in their level of recruitment, with a median of 47%.
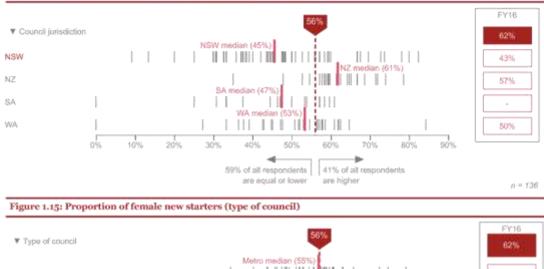
Metro councils recruited a median of 55% female new starters in FY17 (up from 52% in the prior year). In FY17 rural councils have achieved overall gender balance in recruitment, and regional councils have increased from a median of 46% in the prior year to 48%.

We note that where overall gender balance is achieved, this can sometimes be because results have been aggregated across several imbalanced workforces; a common example of this being male dominance in outdoor workers and female dominance in children and aged care services.

Our analysis at a service level, presented in our Service Delivery section, provides a comparison within these workforces and gives councils the opportunity to set goals at the service area level.

Key considerations

- Are you educating those involved in recruitment to be aware of, and avoid, unconscious bias in the recruitment decision-making process?

- Do you understand what your current employer brand offers prospective staff? When did you last review and refresh your employer brand?

- Do you understand the most successful method for recruiting staff in your region? Do you use multiple channels to find talent?

Figure 1.14: Proportion of female new starters (council jurisdiction)

Figure 1.15: Proportion of female new starters (type of council)

| Survey population | Median | ■ Byron Shire Council |

Workforce

Are you striking the right balance between retaining and refreshing your people?

Staff turnover

For the first time in our program, we find the overall median staff turnover rate has decreased; it is now 12.8%, down from 13.4% in the prior year (including fixed-term contract employees). A factor contributing to this overall reduction from the prior year is the inclusion of SA councils, with the lowest median staff turnover rate we have seen so far in this program, at 8.7%.

As a comparison, the Australian HR Institute, surveyed 603 Australian members in 2015, and found that the average staff turnover rate was 16%.[6]

In Figure 1.16, we observe a reduction in the median staff turnover rate for WA councils (14.7%, down from 16.2% in the prior year), compared to higher staff turnover rates in NSW and NZ councils.

NSW councils are experiencing the highest churn rate since the inception of this program, likely a result of departures now there is less uncertainty around merger activity and impacts. NSW's median rate is 12.2%, up from 10.9% a year ago.

NZ councils have the highest staff turnover rate overall, with a median of 17.4%, up from 16.9% in the prior year.

This year we observe metro councils experiencing a growth in the turnover rate, with a median of 14.6%, up from 12.4%. Conversely, turnover rates have decreased in regional and rural councils, from 14.1% to 12.2% for regional, and from 13.3% to 12.5% for rural.

In Figure 1.17, we exclude fixed-term contract employees from the staff turnover rate, and the overall median staff turnover rate reduces to 10.8% (decrease from 11.5% in the prior year). We find this has the most impact on the NZ council median turnover rate, reducing from 17.4% to 13%, suggesting that an amount of turnover can be explained by fixed term contracts ending.

While many councils will aspire to achieve a downward trend in the staff turnover rate year on year, there are benefits in maintaining a reasonable level of turnover to allow for opportunities to promote key internal talent, or hire employees with new and diverse skills.

Key considerations

- Are you reporting and reviewing staff turnover at more granular levels, for example, by service area and/or staff level, so you have a good sense of where there are differences?

- Are you refreshing your staff at the right rate so you can achieve your goals and meet community needs in the future?

- Do you have the right mix of permanent and fixed-term contract staff to account for seasonal services provided by your council?

Definition

Staff turnover rate: Total number of all leavers in the year divided by the headcount at the start of the year (excluding casual employees).

Figure 1.16: Staff turnover rate (including fixed-term contract employees)

Figure 1.17: Staff turnover rate (excluding fixed-term contract employees)

Survey population | Median | ■ Byron Shire Council

6 AHRI pulse survey, 2015, Turnover and retention.

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Turnover rate for employees in their first year of employment

Staff turnover rate in year one

Our analysis on staff turnover rate goes on to explore the frequency of new employees resigning. Examining the turnover rate in the first year of employment is an indicator of the quality of hire, and the extent to which each role delivers on expectations held by employees. An employee leaving within the first year of employment, whether that is voluntarily or involuntarily, demonstrates a poor fit.

When assessing the staff turnover rate in year one, we have excluded fixed-term contract employees from the calculation. Although it has decreased from the prior year (16.7%), the median turnover rate of employees in their first year remains significantly higher, at 15%, compared to the overall equivalent turnover rate of 10.8%.

Retaining new recruits in local government remains a serious issue, especially in WA and NSW councils. In WA councils, the median year one turnover has actually increased (18.2%, up from 17.4%), and it is much higher than the equivalent overall WA council turnover rate of 12.8%. Although the median year one turnover has improved in NSW councils (15.4%, down from 16.1% in the prior year), it remains remarkably higher than the equivalent overall NSW council turnover rate of 10.6%.

As we have already revealed, the median staff turnover in SA councils is very low. The difference between the median year one turnover rate (9.1%) and equivalent overall of 8.1% is small and suggests a different employment environment to other Australian councils.

The lower rate of churn in SA councils is likely due to the higher than average SA unemployment rate experienced over the past years. As such, SA councils may need to refer to other indicators of employee engagement to gauge motivation levels.
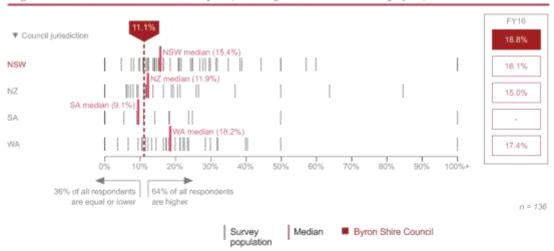
Conversely, we see an improved quality of hire and fit of new recruits in NZ councils, evidenced by the median year one turnover rate falling to 11.9%, down from 15% a year ago. On top of this, the median NZ year one turnover rate is lower than the overall equivalent rate of 13%, indicating a greater departure of NZ longer serving employees, compared to new recruits.

When looking at type of councils, metro councils are more likely to experience higher churn of new employees, with a median first-year turnover rate of 19%, compared to around 13% in both regional and rural councils. This may reflect that new employees in metro areas have increased employment options, including the option of working for another council within an easy commute.

Regardless of whether retention of new employees is unique to the local government sector or not, councils should be examining the reasons behind high turnover in the first year. It is possible that councils are facing a mismatch in their external and internal employer brand, especially when it comes to attracting and retaining newly recruited female and Gen Y employees. The increasing presence of Gen Z (post 1995) in the workforce will bring even more challenges and changes in attracting and retaining this next generation of talent.

Any council with a high turnover rate for employees in their first year of service should be looking much deeper into recruitment practices and exit interview results. This should allow councils to better understand the possible shortfall in the employee value proposition and why they may be struggling to retain new recruits.

Your staff turnover rate in the first year is

11.1%

The survey population median staff turnover in the first year is
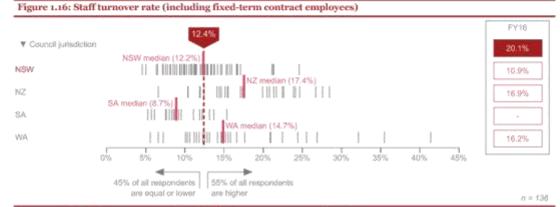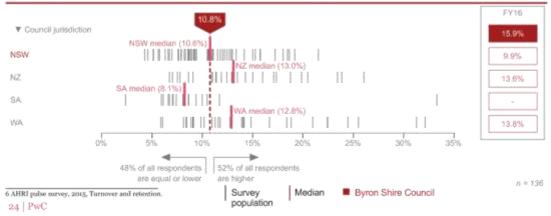
15.0%

Figure 1.18: Staff turnover rate in the first year (excluding fixed-term contract employees)

Workforce

Turnover rate for employees in their first year of employment

Female turnover rate in the first year

It is encouraging to see that overall the rate of female employees leaving in their first year of employment has fallen slightly to 17%, down from 18% a year ago. There has been no movement in the median male staff turnover rate in the first year, remaining steady at 14%.

Unfortunately, the rate at which women are leaving NSW councils has increased to a median year one turnover rate of 20%, up from 17% in the prior year. In comparison, the rate at which men are leaving in their first year of employment in NSW councils, only altered from a median of 13% in FY16 to 14% in FY17.

In WA councils, the decrease in the median female year one turnover rate, dropping down to 17%, from 23% in the prior year, means that the year one turnover rate is consistent across both genders. Meanwhile, in NZ councils there has been a slight adjustment since the

prior year, with more women (14%) leaving in year one, compared to 13% of men.

The zero median result for both genders in SA councils is explained by the small number of councils with staff turnover in the first year of employment.

When examining the different types of councils, we found metro councils face more challenges in retaining both women (20%) and men (18%) in their first year of service, compared to a lower year one churn rate in regional and rural councils.

In rural councils in FY17, we see both women and men leaving at the same rate in their first year of employment, with a median result of 13%. However, in regional councils, women in their first year of employment are leaving at a faster rate (16%), compared to men (11%).

The 'Winning the Fight for Talent' report surveyed over 4,000 employees and career starters to examine gender-inclusive recruitment around the world.[7] We have listed the top five critical areas in attracting and retaining female talent:
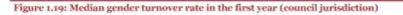
• Opportunities for career progression

• Competitive wages and other financial benefits

• Flexible work arrangements and a culture of work-life balance

• Excellent training and development programs

• Good benefits package, for example insurance, healthcare and other benefits.

Figure 1.19: Median gender turnover rate in the first year (council jurisdiction)
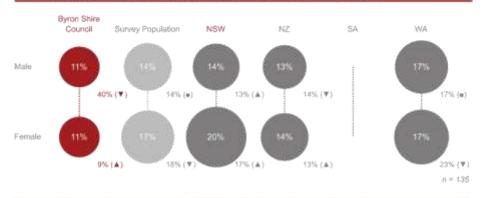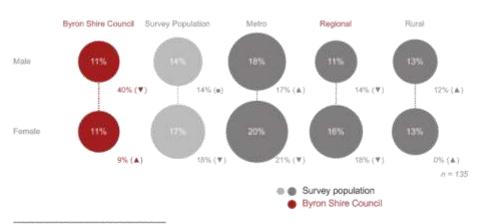
Figure 1.20: Median gender turnover rate in the first year (type of council)

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[7] PwC, 2017, 'Winning the fight for female talent - How to gain the diversity edge through inclusive recruitment'.

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Turnover rate for employees in their first year of employment

Generational turnover rate in the first year

We performed further analysis on the turnover rate in the first year of service and whether there were any trends within the generations. While across the majority of jurisdictions, councils do have more difficulty retaining year one Gen Y employees, compared to year one baby boomers and Gen X, the gap is closing especially between Gen Y and Gen X.

A year ago, Gen Y employees were 1.5 times more likely to leave in their first year than Gen X, but this has now dropped to 1.2 times; Gen Y at 15%, compared to Gen X at 13%.

This is due to the fall in the overall median year one turnover rate for Gen Y (from 19% to 15%), with Gen X remaining stable at 13%.

Unlike the other council jurisdictions, NZ councils experienced an increase with a median year one turnover rate for Gen Y employees of 18%, compared to 14% in the prior year.

WA councils continue to sit with the highest median year one turnover rate across all generations, 19% for Gen Y, 14% for Gen X and 17% for baby boomers. The year one turnover rate for baby boomers in WA has increased dramatically from 10% in the prior year to 17%.
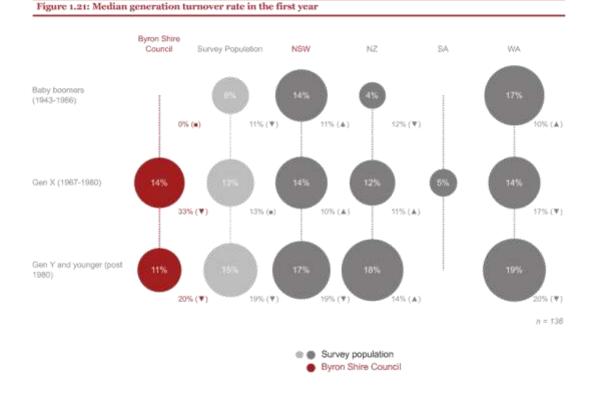
The 2017 PwC global Next Gen[8] survey included in-depth conversations with 35 next gens, from 20 different countries, backed up with online polling of over 100 next gens. The survey results clearly showed that there are a set of common success factors among the next gens. This is referred to in the survey as the 'five Cs', and should be key considerations when looking at the retention of Gen Y employees:

• **Culture:** A supportive culture that allows creativity and the chance to take on responsibility.

• **Communication:** Genuine two-way engagement between the current and next generation, based on mutual respect and trust.

• **Clarity:** Clarity sits at the heart of effective management and governance. Whether it's clarity of strategy or roles and responsibilities.

• **Credibility:** A lack of experience or age, perceived or actual, may lead to a credibility gap, and this will always be a challenge for next gens.

• **Commitment:** Businesses will need to make a commitment to the development of the next generation, but the next gen need to repay that with a willingness to invest time in the business.

Figure 1.21: Median generation turnover rate in the first year

n = 136

Survey population
Byron Shire Council

8 PwC, 2017, Next Gen Survey, 'How the next generation of family business leaders are making their mark - Same passion, different paths'.

Workforce

Who is leaving your council?

Staff turnover rate in detail

To allow councils to further dissect their staff turnover rate, we have performed the same calculations across five different dimensions. These turnover calculations exclude casuals but include fixed-term contract employees.

Our findings show that the median baby boomer turnover (11%) and Gen X turnover (11%) remain unchanged, but the comparison to the median Gen Y turnover rate (20%) continues to suggest that Gen Y employees are far more likely to leave a council.

The overall median Gen Y turnover rate is coming down, sitting at 20%, after spiking at 23% in FY16. However, this is a result of the decrease in the median Gen Y turnover in WA councils (20%, down from 24% in the prior year) and the introduction of SA councils with a much lower median of 15%, as opposed to all council jurisdictions experiencing a decline.

In fact, we observe an increase for both the median Gen X and Gen Y turnover rate in NZ councils, and in NSW councils the Gen Y median has stabilised at 18%, but there has been a slight increase in Gen X turnover (10%, up from 9%).

In Figure 1.24, we continue to see overall higher turnover rates at either end of the staff level spectrum, compared to the middle ranks of team leader and supervisor. Although senior management churn (CEOs, directors and managers) has remained at 13% overall, in NSW councils it increased from a median of 8% in FY16 to 11% in FY17.

When comparing female and male turnover rate, women continue to be more likely to leave local government. The median turnover rate of 14% for women and 12% for men remains unchanged from the prior year.

Your female turnover rate is **17%**

The survey population median female turnover rate is **14%**

Your male turnover rate is **9%**

The survey population median male turnover rate is **12%**
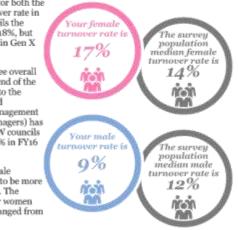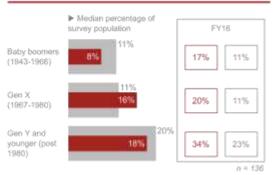
Figure 1.22: Staff turnover rate by generation

▶ Median percentage of survey population

		FY16
Baby boomers (1943-1966)	8% / 11%	17%	11%
Gen X (1967-1980)	16% / 11%	20%	11%
Gen Y and younger (post 1980)	18% / 20%	34%	23%

n = 136
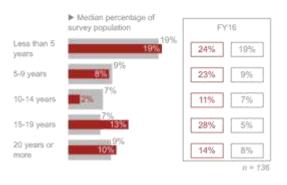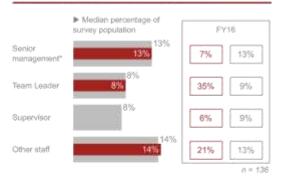
Figure 1.23: Staff turnover rate by tenure

▶ Median percentage of survey population

		FY16
Less than 5 years	19% / 19%	24%	19%
5-9 years	8% / 9%	23%	9%
10-14 years	2% / 7%	11%	7%
15-19 years	13% / 7%	28%	5%
20 years or more	10% / 9%	14%	8%

n = 136
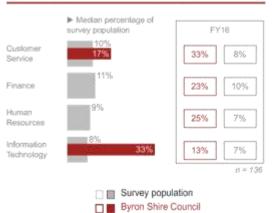
Figure 1.24: Staff turnover rate by staff level

▶ Median percentage of survey population

		FY16
Senior management*	13% / 13%	7%	13%
Team Leader	8% / 8%	35%	9%
Supervisor	8%	6%	9%
Other staff	14% / 14%	21%	13%

n = 136

*Includes CEO, Director and Manager.

Figure 1.25: Staff turnover rate by corporate service

▶ Median percentage of survey population

		FY16
Customer Service	17% / 10%	33%	8%
Finance	11%	23%	10%
Human Resources	9%	25%	7%
Information Technology	33% / 8%	13%	7%

n = 136

☐ ■ Survey population
☐ ■ Byron Shire Council

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Talent diversity

Gender diversity

The local government sector has the opportunity to serve as an exemplar workplace for inclusion of women, with women representing 47% of the surveyed workforce, down slightly from 48% in the previous year.

The proportion of women in the workforce remains highest in NZ councils (58%), followed by WA councils (50%). SA councils enter the program with women comprising 44% of the SA surveyed workforce and NSW councils remain unchanged, with 40%.

In our program, we further analyse gender diversity at each staff level, and find that although the representation of women in the entry level position of 'other staff' is 50%, as in most organisations, this

steadily declines the more senior the staff level. We continue to observe just over one third of managers being represented by women (35%) and 28% female directors.

Of most concern is the drop in female CEOs to 12%, down from 15% in the prior year. This reduction in female representation is also prevalent at the team leader and supervisor levels. This is further dissected by council jurisdiction on the next page.

According to PwC's most recent global CEO survey, almost 87% of surveyed CEOs promote talent diversity and inclusiveness. Investing in a formal diversity strategy is one way to develop leaders from diverse backgrounds and assists in the realisation of benefits from diversity and inclusion

within the workforce such as enhanced business performance, increased collaboration and attracting additional talent.[9]

This key finding highlights the importance of talent diversity and the role it plays in many global and national businesses. Local government is no exception, especially as a diverse workforce is more likely to reflect broader community views, allowing councils to better understand community needs and deliver anticipated outcomes.

We encourage councils to consider adopting a diversity and inclusion strategy that encompasses gender, ethnicity, nationality, race, disability and age.

Proportion of women across all councils

50% 44% 40% 58%

42% of your workforce is female

47% of the surveyed workforce is female

Figure 1.26: Staff-level gender split at 30 June 2017

FY16		Percentage of males ◄		► Percentage of females		FY16	
100%	85%	88% / 100%	CEO	12%		0%	15%
50%	72%	72% / 50%	Director	28% / 50%		50%	28%
64%	65%	65% / 60%	Manager	35% / 40%		36%	35%
67%	59%	61% / 63%	Team Leader	39% / 37%		33%	41%
81%	61%	64% / 78%	Supervisor	36% / 22%		19%	39%
56%	49%	50% / 55%	Other staff	50% / 45%		44%	51%

n = 136

☐ ■ Survey population
☐ ■ Byron Shire Council

9 PwC, 2017, 20th Annual Global CEO Survey, '20 years inside the mind of the CEO... What's next?'.

Workforce

Talent diversity
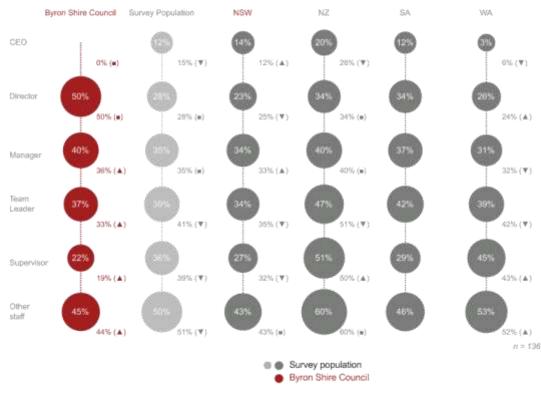
Pipeline of female employees

Figure 1.27 highlights the fact that limited change is occurring in local government when it comes to transitioning women from the entry level position of 'other staff', where there is gender balance, to more senior levels of manager and above.

Overall, we observe stagnation in female representation in the director and manager levels and a downward shift in the proportion of women in the crucial pipeline roles of team leader and supervisor. The role of CEO has also been impacted; in FY15, women accounted for 18% of the CEO roles, but this fell to 15% in FY16 and is now at 12% in FY17.

This decline in female CEOs in the past year is due to a downward shift seen in NZ and WA councils. Female CEOs in NZ councils spiked in FY16 to 28% (up from 23% in FY15), but this has fallen to one in five female CEOs in FY17 (20%), and in surveyed WA councils we see just one female CEO out of a possible 33 CEO positions (down from two CEOs in the prior year).

In contrast, in NSW councils there has been a slight increase to 14% female CEOs (up from 12% in FY16), however, this result remains lower than 16% reported in FY15. SA councils join the program with 12% female CEOs.

Key considerations

- Have you reviewed the career pipelines for your staff moving into management in all areas across the business? Did you incorporate a diversity lens as part of this review?

- Are all managers individually supported in developing the required skills for their career pipeline?

- Are you equally considering all up and coming managers, across the various business units, in terms of career development towards senior leadership?

- Does unconscious bias exist towards certain roles being seen as more likely to deliver senior leaders?

Figure 1.27: Female employees by staff level

	Byron Shire Council	Survey Population	NSW	NZ	SA	WA
CEO	0% (■)	12% / 15% (▼)	14% / 12% (▲)	20% / 28% (▼)	12%	3% / 6% (▼)
Director	50% / 50% (■)	28% / 28% (■)	23% / 25% (▼)	34% / 34% (■)	34%	26% / 24% (▲)
Manager	40% / 36% (▲)	35% / 35% (■)	34% / 33% (▲)	40% / 40% (■)	37%	31% / 32% (▼)
Team Leader	37% / 33% (▲)	39% / 41% (▼)	34% / 35% (▼)	47% / 51% (▼)	42%	39% / 42% (▼)
Supervisor	22% / 19% (▲)	36% / 39% (▼)	27% / 32% (▼)	51% / 50% (▲)	29%	45% / 43% (▲)
Other staff	45% / 44% (▲)	50% / 51% (▼)	43% / 43% (■)	60% / 60% (■)	46%	53% / 52% (▲)

n = 136

○ ● Survey population
● Byron Shire Council

Talent diversity

Pipeline of female employees (continued)

When we analyse the pipeline of future female leaders across the survey population, we find the median proportion of female employees at manager level and above has decreased slightly from the previous year's result of 32% to 30%.

By comparison, based on the data collected by the Workplace Gender Equality Agency ("WGEA") from over 11,000 Australian non-public employers covering over 4 million employees overall, females comprise 38.4% of manager and above levels. This continues to increase, up from 37.4% in prior year.[10]
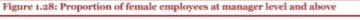
The WGEA data also showed that gender balance in leadership is set to continue to improve, with 43.4% of manager appointments in 2016-17 going to women.

Over 55% of the participating employers, included in the WGEA data set, have policies and/or strategies to support gender equality in promotions, talent identification and retention. Almost 30% of these employers have also developed specific gender equality KPIs for managers.[11]
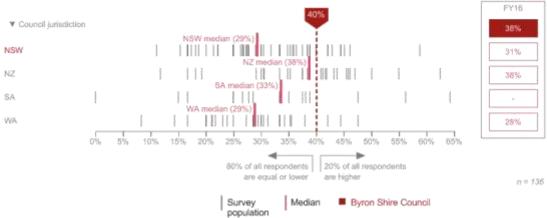
In our program, we found that NZ councils are more likely to have a higher percentage of women in manager and above levels, with a median of 38%. Interestingly, we observe stronger female manager and above representation in SA councils, with a median of 33%, compared to 29% in both NSW and WA councils.

Councils should take the opportunity to challenge the gender imbalance by developing action plans that support the current group of female managers and team leaders so they have the opportunity and confidence to transition to the next level.

Equally important is for councils to consider their pipeline and recruitment rate of female employees across each business unit, and whether there are particular areas that need more assistance in attaining a more gender–diverse workforce.

Further in this section, we explore promotion within the local government sector. This highlights the importance of developing strategies to provide enhanced career opportunities and pathways as well as flexible working practices to retain women and men who wish to pursue future leadership roles.

Figure 1.28: Proportion of female employees at manager level and above

▼ Council jurisdiction

	FY16
NSW	38%
NZ	31%
SA	38%
WA	-
	28%

NSW median (29%)
NZ median (38%)
SA median (33%)
WA median (29%)

40%

80% of all respondents are equal or lower | 20% of all respondents are higher

n = 136

Survey population | Median | ■ Byron Shire Council

10 Workplace Gender Equality Agency (WGEA), November 2017, 'Australia's gender equality scorecard. Key findings from the WGEA's 2016-17 reporting data'.
11 Ibid.

The Australasian LG Performance Excellence Program FY17 | 31

Workforce

Talent diversity

Gender diversity in senior levels

Organisations often face the challenge of how to ensure that women have the same opportunities as men to progress into senior management roles. Based on the data collected by the WGEA,[12] we can see the difficulties for Australian women seeking promotion from management to key management personnel (KMP) levels,[13] where only 29.7% of employees are women (up from 28.5% in prior year), and 16.5% are CEOs (up from 16.3%).

In our survey, we see a blended overall female CEO and director median of 20%, and this has declined from 25% in both FY16 and FY15.

It is interesting to note that metro councils are now more likely, than regional and rural councils, to have a higher proportion of female CEOs and directors, with a median of 25% (up from 20% in the prior year). Both regional and rural councils have less women in these top two roles; a median of 20% in regional (down from 29%), and 17% in rural councils (down from 20%).

One way for councils to address this gender imbalance at senior levels is to actively train and develop high performing women in the areas necessary for senior roles – finance, leadership and governance.

In the next 10 years, it is likely that the public sector will have an unusually older workforce than the broader labour market.[14] This aged workforce could lead to many vacant senior positions so we encourage councils to recognise the pool of talent in this existing group of employees and develop strategies (training, mentoring and shadowing programs, flexible working arrangements) to support female managers applying for these future leadership roles.
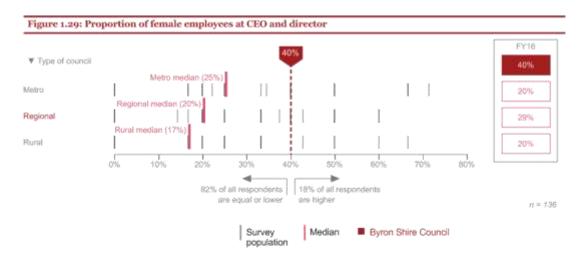
In addition, councils should explore the development of recruitment strategies that require equal representation for senior roles, both for candidates and the selection panel. These strategies can be useful to create a cultural shift and to change what could be promotion and recruitment 'habits'.

Key considerations

- Have you incorporated a focus on equal gender representation in your recruitment strategy?

- How are you developing your approach to diversity and merit based promotion and recruitment?

- Have you considered setting some diversity based KPIs for senior management?

- Have you implemented or piloted a flexible working policy and/or strategy targeted at both men and women?

- Do you have a clear outline of your future resourcing and skill needs in each business area?

....

The representation of women steadily declines when moving up the management levels; women comprise only 29.7% of key management personnel (KMP) positions, and 16.5% of CEO positions.

Key results from Workplace Gender Equality Agency, November 2017
....

Figure 1.29: Proportion of female employees at CEO and director

12 Workplace Gender Equality Agency (WGEA), November 2017, 'Australia's gender equality scorecard. Key findings from the WGEA's 2016-17 reporting data'.
13 KMP is a manager who represents at least one of the major functions of the organisation and participates in organisation-wide decisions with the CEO.
14 PwC, August 2016, '1-2 skip a few 99-100 - Is the public sector planning for the 100 year life?'

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Talent diversity

Corporate service areas

We continue to see women comprising the majority of roles in customer service, finance and HR, with males dominating the IT roles.

This higher percentage of males working in IT is not dissimilar to other industries. NSW councils now have the highest proportion of women in IT, with 40%, but this is closely followed by NZ councils, with 39% female representation; a large decline from 46% in prior year. SA and WA councils are lagging with women only comprising 34% and 31% respectively of employees working in the IT function.

While the results are a good sign that NSW and NZ councils are reaching a wider talent pool, given the critical importance of technology for the future innovation of councils, we encourage councils to continue to incorporate diversity considerations when recruiting for IT roles.
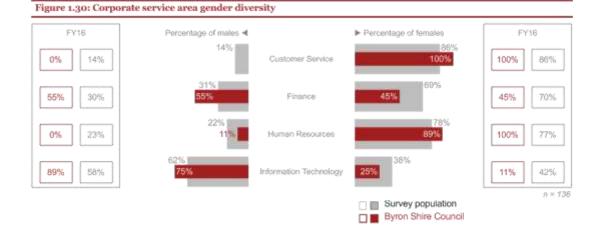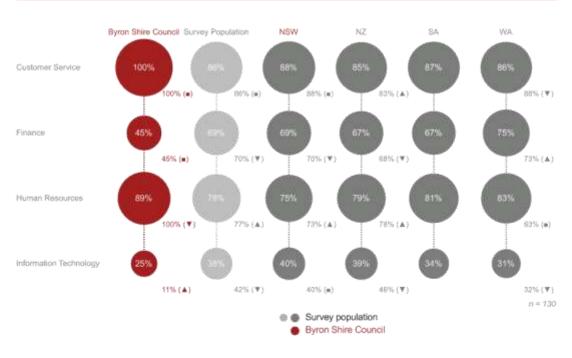
Figure 1.30: Corporate service area gender diversity

Figure 1.31: Percentage of female employees by corporate service area

Workforce

Removing the glass ceiling

Promotions

A good indicator of how well a council is growing the career opportunities for women in leadership positions is the rate at which women are promoted into senior roles over time. It is important that councils are harnessing the existing pool of female talent and assessing how close they are to gender balance during promotion cycles.

To better understand the extent of promotion balance in the 2016–17 financial year, we looked at the pool of employees at the beginning of the year and, presented in Figure 1.32, the proportion of men and women who were promoted into the supervisor level or above. The 45 degree line represents equal promotion rates for men and women.

Both regional and rural councils have a similar profile of female representation at each of the staff levels. Despite this, rural councils have experienced a pronounced gender imbalance when it comes to promotions. Rural councils were twice as likely to promote men over women in FY17, compared to regional councils that promoted 1.3% of men and 1.1% of women into supervisor and above levels.

Looking at the promotion rate across council jurisdictions, SA councils are the only cluster to achieve promotion gender balance, during the 2016-17 financial year, with both 0.7% of women and men being promoted into supervisor and above levels.

In the prior year, WA councils promoted women into supervisor and above at a higher rate than men. However, in FY17, promotions into supervisor and above were more balanced; 1.0% of women and 1.1% of men were promoted into supervisor and above.

In NZ councils, we saw a much lower percentage of promotions in FY17, compared to the prior year. However, men continue to be promoted at a higher rate (1.5 times, unchanged from the prior year) to women, with 0.6% of men and 0.4% of women being promoted to supervisor and above levels. This remains an area of focus for NZ councils given they employ more women and have a higher proportion of women in senior roles, compared to the other councils.
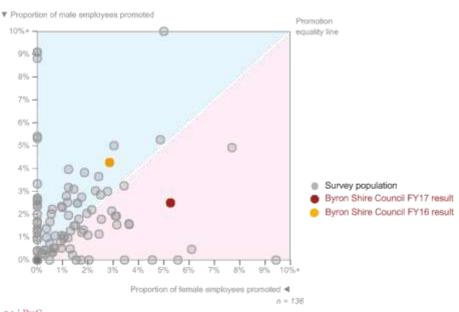
There has been no change in the promotion gender imbalance in NSW councils since the prior year; 1.0% of women and 1.3% of men were promoted into supervisor and above levels.

A single year of results should be read with care; the key issue is for each council to assess whether it is actively focused on the progression of female employees within the organisation, especially their career path to senior levels of management.

Key considerations

- Do you have a rigorous and independent talent review process that supports enhanced decision making regarding promotions?

- Have you analysed your promotions at each level? Is there an imbalance across the more senior levels? Why is this?

- Do you perform a final review of your promotion decisions to consider diversity statistics? i.e. percent of male vs. female promotes?

- Are you tackling the issue of unconscious bias, especially in regard to existing promotion processes for senior executive positions?

- How do you demonstrate to staff that diversity and promotion equality is on your senior management agenda?

Figure 1.32: Likelihood of promotion by gender into supervisor and above

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Removing the glass ceiling

Rate of promotion

We have also examined the rate of promotion for female employees within different staff levels, as shown in Figure 1.33. At an overall level, it is encouraging to see that councils are taking a more serious approach in developing a strong leadership pipeline for female staff members.

The positive shift in promotion gender balance at the director level continues this year, and for the first time in two years, more women (2%) are being promoted than men (0.5%). We especially see a difference in WA councils, with 3.8% of females at the director level being promoted (up from 0% in the prior year), compared to no male promotions at the same level.

Likewise in NSW councils, we observe female directors being promoted at a faster rate, with 3.9% of females at the director level being promoted, compared to 1.2% of men at the same level. In SA and NZ, we see no promotions at this level of either gender.
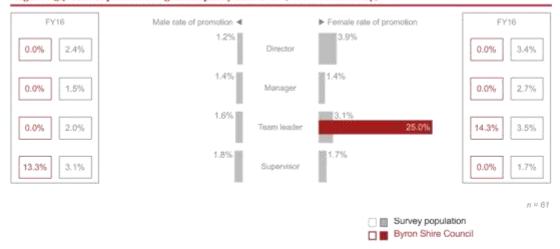
The goal of any organisation is to identify, develop and leverage all existing talent. As people move into management positions, some of these skills are more generic in nature and require less technical ability. Management and leadership skills are transferable and require a balanced view of talent management.

The team leader level is an important career development milestone where staff start to become more accountable and gain valuable soft skills such as coaching, delegating and conflict resolution. Once again, we find that more female team leaders were promoted (2.3%), compared to their male equivalents (1.3%).

An opportunity for gender balance exists at the supervisor level and we encourage councils to consider the importance of achieving gender balance at this level, where potential successors for key management roles may emerge.

Figure 1.33: Rate of promotion - gender split by staff level

n = 136

Figure 1.34: Rate of promotion - gender split by staff level (NSW councils only)

n = 61

Survey population
Byron Shire Council

Workforce
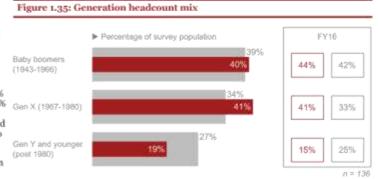
Are you leaving succession planning too late?

Generational diversity

Understanding the patterns and trends by profiling generational diversity in the workforce assists councils to plan for the future and introduce and enhance relevant HR strategies and initiatives. While we continue to see baby boomers dominating the workforce, the generational shift continues to unfold, with baby boomers now comprising 39% of the workforce, compared to 42% in the prior year and 49% back in FY14. As a result, there are now 27% of Gen Y and younger employees (up from 25% in the prior year and 18% in FY14), and Gen X employees have increased slightly to 34% from 33% in the prior year.

In Figure 1.37, we are now seeing more Gen X enter the senior management roles.

Figure 1.35: Generation headcount mix

Figure 1.36: Workforce profile (closing headcount breakdown by generation and gender)

Figure 1.37: Generational staff level mix

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Case study:
Creative hiring schemes for attracting Gen Y to the workforce

Australia, like most developed nations, is experiencing a rapid aging of the population. At June 2016, the median age of the Australian population was 37.2 years, up from 36.7 years at June 2006. This is projected to increase to between 38.6 years and 40.5 years in 2031, and between 41.0 years and 44.5 years in 2061.

The shape of the workforce in our local government program shows that baby boomers comprise 39% of the overall surveyed council workforce, with many having the option to retire in the next 5 to 10 years. Planning for more flexible work options for this large contingent of experienced employees to ease into retirement is a focus and we are also seeing councils on the path to attract and retain new and diverse talent, especially within the Gen Y cohort. We have profiled two councils who have taken a creative approach in addressing this issue.

Albury City Council, NSW

Background

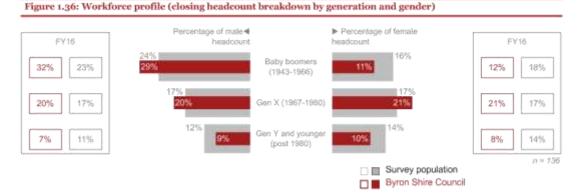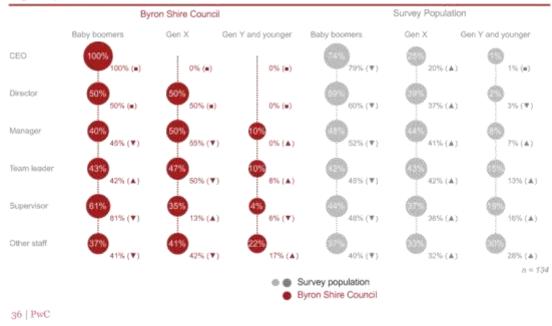As with many other regional councils, we were experiencing a skills shortage for key functions as well as facing hurdles when it came to attracting and retaining skilled professionals. We had been aware of these challenges, however they were crystallised when we prepared our Workforce Management Strategy in 2010, which led to significant workforce planning considerations.

'Grow Our Own' initiative

The 'Grow Our Own' program is a comprehensive traineeship/apprenticeship program. The program focuses on creating a sustainable solution to the workforce challenges identified in the Workforce Management Strategy. The main aim of the program is to ensure that Albury City is being proactive in "Growing Our Own" to cover future skill shortages in both the trade and qualified professions.

The program began in 2007 with 6 trainees, however it was enhanced in 2010 following the development of our Workforce Management Strategy – with Albury City adopting a policy of having 10% of our workforce participating in the program at any one point in time. Trainees work full time and are employed for the duration of their qualification, with their study costs, for either a TAFE certificate/diploma or university degree, being funded by our council. More than 100 people have been through the program, with nearly 20% going on to accept permanent positions within Albury City.

Key challenges and advise

The main challenge faced was managing the four-way relationship between HR, student, supervisor and the university/TAFE. Supervisors needed time to come to accept and value the program. We needed to change the mentality from "I haven't got time for a trainee" to one where the program was embraced and the goal was very clear; this was the way to build a sustainable workforce. Education of the key people was vital, not only the what and how, but also the why; staff needed to be involved, consulted and engaged.

For our students, they needed to find the right balance between work and study commitments, given study is undertaken in the student's free time. It was critical to set a clear and structured plan at the beginning and create a support system for our students. This was our key learning and we are now taking a more structured approach, by developing clearer procedures and frameworks around the program.

Benefits

The benefits of this program extend beyond the direct benefits to building a sustainable council workforce. We are also seeing the huge positive impact on the individuals involved, the community, and the local government sector. Aside from addressing our skills shortage, the program provides opportunities for our people to live and learn locally in a large and diverse organisation. It also helps to build the community capacity and helps the local labour market gain skilled workers in a more sustainable way.

Our trainee program has resulted in a number of trainees being successful in a professional role where previously it was difficult to attract suitably qualified applicants. It has been a key part of Albury City's succession management process and has contributed to a sustainable workforce. It has also reduced our average workforce age from 47 to 44 and plays a part in refreshing our organisational culture.

Case study:
Creative hiring schemes for attracting Gen Y to the workforce

Parkes Shire Council, NSW

Background

Our council has an aging workforce with up to 50% of its workforce expected to retire in the next 2-10 years. In addition, we face a skill shortage, and issues attracting and retaining young engineers within a rural regional council. A report from Hays Recruitment agency found that in NSW, a growing construction industry is driving demand for civil engineers. As a result, our CEO set a target; 10% of our council's workforce need to be trainees, apprentices or cadets by 2020. This is an attempt to encourage young people to live, work and study in the Parkes Shire.

The Major Industrial Project Placement Scholarship (MIPPS)

The MIPPS program is a scholarship program set by the University of Sydney in which top final year students in chemical and biomolecular engineering are placed in a relevant company for 6 months, enabling them to gain hands-on experience on real projects. We were first introduced to the MIPP's program through the delivery of our new large water and sewer infrastructure project. After a very brief introduction to the program, we signed up as a partner for the 2016 year.

In addition to the MIPPS program, we have participated in other similar initiatives such as the UTS LG Engineering Program, University of Newcastle Scholarship program, University of Southern Queensland Distance Education program and Western Sydney University post-graduate program, amongst others. This has allowed us to work with either local students who want to work full-time while studying distance part-time, or provide scholarships for students to study full-time and work with us during the vacation period, or to provide for short-term vacation, thesis or post-graduate work.

Key challenges and advise

The main challenge we have faced is being able to continue the student engagement beyond the MIPPS project itself. While we have offered the MIPPS students full-time positions following their placements, due to the high calibre nature of these students, they have had various other opportunities available to them and generally opted to take the alternative job opportunities. Despite this we see benefits to an ongoing involvement with MIPPS, and it is entirely manageable by developing tightly contained and discrete projects. It is fair to say that it is difficult to build on the specialised knowledge developed in the projects beyond the annual 4-5 month MIPPS period, and also limits the organisational capacity building that could potentially be leveraged from the scheme. As such, other councils looking to become involved in MIPPS or similar schemes should look closely at how to make the most out of this periodic hosting and mentoring of students, or even at ways of encouraging students to become employees to gain longer-term benefits to the organisation.

Benefits

The program made absolute financial sense - for an investment of less than $40,000 for the 6 month period where we host MIPP's students, the trainees have built a hydraulic model alongside operational staff for an output that has been equivalent to that produced by competent consultants charging up to four times this figure for a "lighter" touch.

Another benefit is having a full-time resource invested in a particular issue for our business. It has meant that the project has actually got off the ground rather than competing with business-as-usual priorities. This focus on critical issues has helped us address the potential for the issue to manifest as a key risk at some point in the operational cycle.

The implementation of these type of initiatives in our council has had a positive impact within our organisation. They have helped identify and even resolve issues in service delivery, operations and compliance; helped to boost productivity of our major projects team and exemplified youthful enthusiasm and dedication, helping to lift staff motivation and morale. We have also seen the percentage of young trainees, apprentices and cadets within our workforce increase from 4.4% in 2013 to 8.5% in 2016.

Are you leaving succession planning too late?

Potential retirements

As a result of the current generational workforce trend, councils need to start planning, given the significant effect on future resourcing requirements.

In less than 10 years (by June 2027), we can predict that 26% of workers who were employed by councils at 30 June 2017 will reach the retirement age of 65 years and have the option to retire.

It is particularly concerning as it will be some of the most senior positions that are impacted in ten years, with 61% of the current CEOs due to reach the retirement age of 65 years and have the option to retire; this is magnified for NZ councils, with 84% of CEOs potentially being in a position to consider retirement.

Across all council jurisdictions, this is further compounded, by the fact that 35% of all current directors, will also find themselves in a position to consider retirement in ten years.

This large number of senior employees reaching retirement age should be a key focus for local government. It is important that any underinvestment in knowledge management and knowledge transfer capabilities be assessed, given most councils would have become accustomed to a stable, experienced workforce provided by these workers.

As such, senior leaders within councils need to examine whether they have adequate workforce planning and HR strategies for dealing with impending retirements. This means creating strategic HR plans to ensure resourcing will be adequate into the future as well as building a strong leadership pipeline now.

Figure 1.38: Potential retirements by June 2027

	Byron Shire Council	Survey Population	NSW	NZ	SA	WA
CEO	100%	61%	54%	84%	53%	58%
	100% (■)	57% (▲)	58% (▼)	86% (▲)		56% (▲)
Director	25%	35%	34%	37%	34%	35%
	0% (▲)	33% (▲)	34% (■)	34% (▲)		32% (▲)
Manager	20%	31%	30%	35%	25%	28%
	18% (▲)	31% (■)	31% (▼)	33% (▲)		26% (▲)
Team leader	13%	28%	30%	26%	24%	26%
	13% (■)	27% (▲)	28% (▲)	25% (▲)		24% (▲)
Supervisor	48%	29%	32%	25%	32%	27%
	56% (▼)	29% (■)	32% (■)	27% (▼)		26% (▲)
Other staff	23%	25%	27%	24%	25%	25%
	25% (▼)	25% (■)	26% (▲)	24% (■)		25% (■)

n = 136

● ● Survey population
● Byron Shire Council

Workforce

Are you leaving succession planning too late?

Succession planning

A good succession planning program is about retaining high-performing employees and building capability resilience into all levels – especially the senior leadership team. If councils invest in identifying, rewarding, challenging and developing the skills of their key talent, the pool of potential successors remains strong within the council, as there is a reduced need for these employees to further their careers elsewhere.

As highlighted, there is an identified risk in losing vital talent, local government expertise and leadership skills over the next 10 years. It is therefore essential for councils to establish a formal succession planning program to help them identify and develop emerging talent as potential successors for key leadership roles. To nurture this identified emerging talent, councils should look to offer management training, mentoring, secondments to other councils, 'acting' opportunities in more senior roles and other leadership opportunities to keep building and developing this pool of talent.

In our program, we see almost 9 out of 10 councils (87%) without a formal succession planning program. We acknowledge that some councils choose to create a talent succession plan and work with other nearby councils to identify potential leaders, especially in rural locations. While this may have worked well in the past, we suggest formalising this approach given the reality that lies ahead for most councils.

NZ councils are now starting to focus on this important HR initiative, and are more likely to have established a formal succession plan (19%, up from 7% in the prior year), compared to WA (13%, up from 9%), NSW (11%, down from 13%), and SA councils (6%).

Some options that may make the transition easier for councils upon retirement of their senior management is:

• Implementation of deputy CEO positions to build succession experience and allowing these roles to 'act' as CEOs as needed

• Appropriate handover and shadow time for the successor

• More flexible work arrangements to prolong employment and delay retirement for key roles, e.g. transition to three days per week or act as a consultant performing services on an as-needs basis.

Key considerations

· Are you considering the best methods of transitioning senior management positions upon retirement?

· Who is responsible for creating strategies and action plans that focus on the long term resourcing health of your senior leaders?

· Have you engaged across the organisation to highlight the issues i.e. have you engaged senior leaders, line managers, HR or a combination?

· Do you have a plan as to how to create accountability and visibility by embedding formalised succession planning into the culture of your council?

Figure 1.39: Did your council have a formal succession planning program in FY17?
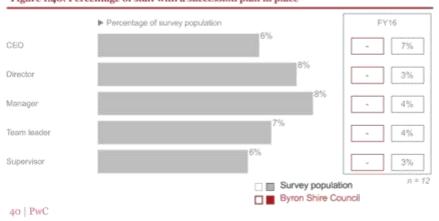
Only **13%** of councils have a succession planning program in place

Figure 1.40: Percentage of staff with a succession plan in place

Do you have an active leave management strategy in place?

Annual leave

An active leave management strategy recognises the importance of both the well being of the employee and the financial liability for the organisation. Failure to rest and recuperate may result in health problems and stress-related productivity issues for employees. The financial impact is also important, given over time the value of leave balances can increase significantly as individual pay rates rise.

Our survey results show that as of 30 June 2017, 35% of employees carried more than four weeks of annual leave (down from 37% in the prior year) and 8% had more than eight weeks accrued (down from 9% in the prior year). This downward trend is primarily due to the result of lower annual leave balances in the NZ council workforce; 27% of employees carry four or more weeks (down from 32% in the prior year), compared to 40% in NSW, 35% in SA and 33% in WA.

When analysing the proportion of employees carrying more than eight weeks of accrued annual leave, this is most pronounced across the NSW council workforce, with this group of employees being 3 times more likely to carry this excess accrued leave balance (12%), compared to NZ council employees (4%). Meanwhile, 8% of both the WA and SA council workforce carry more than 8 weeks accrued annual leave.

The higher proportion of unused annual leave in NSW councils is even more concerning when we look at this in conjunction with the paid overtime hours per FTE metric. We observe the median

NSW council, with an annual paid overtime per FTE of 50 hours, which compares unfavourably to the median WA council result of 20 annual paid overtime hours per FTE and the median SA council with 16. Meanwhile, the NZ council workforce is using their annual leave and has the lowest median council annual paid overtime per FTE of 13 hours.

The generational shift in the workforce that is currently occurring makes this the right time for local government, especially NSW councils, to implement an active leave management strategy. From a financial viewpoint, at least one out of three employees are effectively rolling over one month of salary each year. Just as concerning, if not more important, is the wellbeing factor and the prevention of stress-related illness. Enterprise negotiations often focus on leave entitlements and the family and community benefits of leave; if the evidence shows that these existing leave benefits are not taken, then the value and relevance could be questioned.

Key considerations

- Are you making your managers accountable for managing leave balances for all staff?

- Are you analysing high level balances and high overtime hours by business unit?

- Are your senior managers with high leave balances, modelling the desired leave behaviour? Is this impacting your staff at the lower levels?

- Do you encourage a culture where leave is used as a way to maintain good health and wellbeing?

33% of your workforce has **4** weeks leave accrued

10% of your workforce has **8** weeks leave accrued
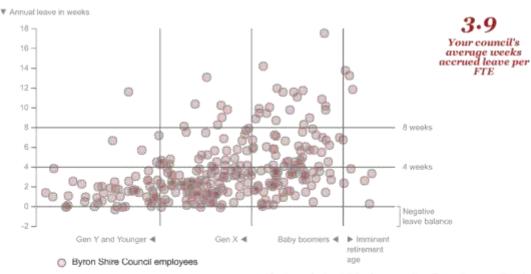
40% of the NSW surveyed workforce has **4** weeks leave accrued

12% of the NSW surveyed workforce has **8** weeks leave accrued

Figure 1.41: Employee annual leave balance

▼ Annual leave in weeks

3.9 Your council's average weeks accrued leave per FTE

Gen Y and Younger ◄   Gen X ◄   Baby boomers ◄ ▶ Imminent retirement age

○ Byron Shire Council employees

Workforce

The importance of managing long service leave and retirement

Long service leave

Because only Australian councils have a statutory obligation to accrue long service leave for their employees, we have excluded NZ local governments from our calculations in this section.

The generational shift within the workforce is happening in NSW, and people are retiring after long careers. At the same time, overall employee turnover is increasing, and yet the percentage of employees with long service leave balances over 12 weeks remains at 28% in NSW councils; a result that has not moved in the past four years.

This means that a portion of retiring and long-serving departing employees are being replaced in this measure by younger generations who appear to be retaining the leave accumulation practices of the prior generation(s).

We find much lower percentages of the surveyed workforce carrying more than 12 weeks of long service leave in WA (6%) and SA (11%).

Councils with a significant proportion of their workforce in the baby boomer generation should consider their financial liability, due to the impending retirements of this group of employees. These councils need to develop a strategy, or refresh their policies and procedures around the taking of leave, to avoid a cash flow shock over the coming years, and to help manage the transition from work to retirement for employees and the council.

Potential benefits that stem from implementing an active long service leave management program include:

• An improved skill base, as existing employees accept opportunities to 'act' in different roles

• A more engaged workforce, due to the variety of work on offer

• A shift in the workplace culture, where senior management models the desired behavior of using accrued leave

• A smoother transition from work to retirement, leading to better employee welfare, knowledge retention, and knowledge transfer within the council
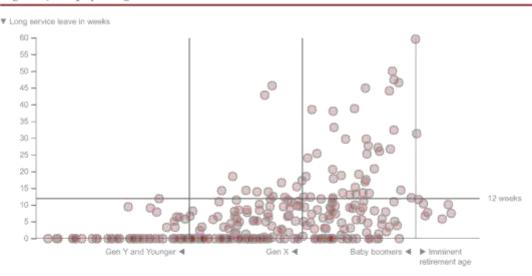
• The ability to establish a long-term plan in the event of a skills shortage

• A refreshed workforce, possibly leading to less sick leave and lost time from injuries.

18% of your workforce has 12 weeks leave accrued

28% of the NSW surveyed workforce has 12 weeks leave accrued

Figure 1.42: Employee long service leave balance

▼ Long service leave in weeks

Gen Y and Younger ◄   Gen X ◄   Baby boomers ◄   ► Imminent retirement age

○ Byron Shire Council employees

Learning from sick leave and absenteeism

Absence

The absence rate can be used as an indicator of two key workforce outcomes:

• The volume of absence management that needs to be performed and/or managed

• The extent to which excess absenteeism can be attributed to low employee engagement.
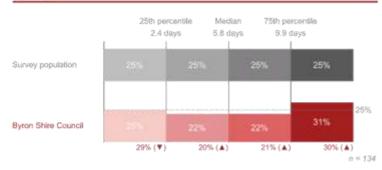
Across the survey population in the 2016–17 financial year, the 25% of employees who used a small amount of sick leave took 2.4 days or less (up from 2.3 days or less in the prior year), and on the other end of the spectrum 25% of employees took 9.9 days or more (down from 10.5 days or more in the prior year). The remaining 50% of staff took between 2.4 days and 9.9 days of sick leave – this is the 'normal' range.

It is important for each council to examine their sick leave profile in Figure 1.43. What percentage of your employees fall within the 'normal' range? If you have more than 25% of employees in the higher range (taking more than 9.9 days), do you understand why certain employees are reporting high levels of absenteeism?

To gain a deeper understanding of your sick leave profile we have provided each council with a quartile breakdown on sick leave taken by supervisors and above compared to other staff in Figure 1.44. A high level of absenteeism among employees at the supervisor level can have a demotivating effect on the lower levels of staff, which may lead to higher absenteeism in the team overall.
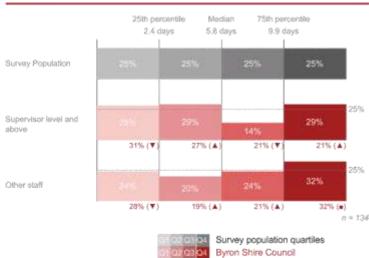
Key considerations

• What percentage of your employees fall at the top end of the sick leave spectrum?

• Which employee groups are reporting consistent high levels of absenteeism?

• Are you understanding the root cause of critical absenteeism to apply preventative measures?

• Do you equip managers with the ability to manage and monitor absenteeism and look for patterns and trends?

Figure 1.43: Breakdown of percentage of employees taking sick leave by quartile

Figure 1.44: Breakdown of percentage of employees taking sick leave by quartile

6.4 median sick leave days taken in FY17 across your workforce

5.8 median sick leave days taken in FY17 across the survey population

Workforce

Are you equipping staff with new skills?

Staff training

Our survey results show that 99% of councils set a formal training budget each year, however, only 24% of councils with a training budget for the 2016–17 financial year actually spent the full amount. This trend has been observed for some years now and remains an issue for the sector. Our new SA councils are more likely to use their training budget compared to other jurisdictions, with one third spending the full training budget. Conversely, WA councils are least likely, with just 16% spending the full training budget.

Those councils that are spending less per FTE on training compared to the full training budget should be examining the reasons behind this decision and the possible ramifications on the workforce.

This lack of spending suggests an actual training strategy may be absent to convert the budget into a mixture of effective technical and soft skills training courses or activities, even though good intentions may have existed during the budget setting cycle. It could also be a sign that employees may not be allocated sufficient hours in the year to develop their skills.
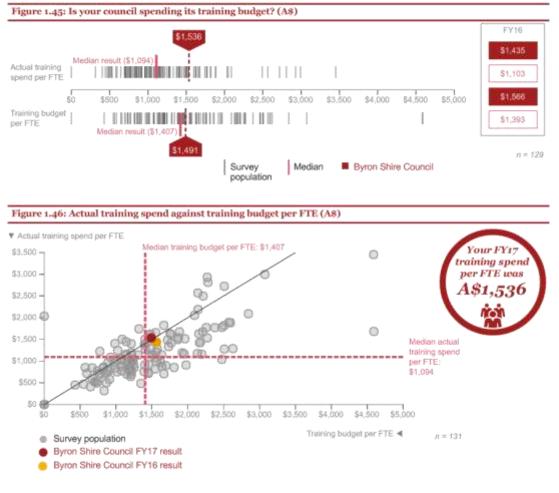
Equipping staff with new skills has become even more important with the rapid change in customer and employee expectations, and the increasing need to innovate ways of working and keep up with technological advancements. Flexibility and adaptability are important attributes and equipping managers as well as junior levels of staff with the confidence to engage and interact in new ways is critical.

If council lacks commitment when it comes to creating opportunities for learning, this may lead to reduced productivity, low staff engagement, loss of staff, reduced management pipeline, as well as an inability to innovate and quickly respond to changing circumstances.

Some ways to provide staff training options without impacting their day to day roles could include:

• Offering short or long–term secondments to other areas of the business or councils

• Providing short and sharp sessions such as 'lunch and learn', e-learns

• Incorporating training into planned social or team bonding sessions.

Figure 1.45: Is your council spending its training budget? (A$)

Figure 1.46: Actual training spend against training budget per FTE (A$)

Strategy and performance are intrinsically linked

Performance appraisals

Committing to providing honest and timely performance feedback can have a significant impact on employee morale and productivity, as well as create a culture of continual improvement. These feedback conversations should be focused on how the employee differentiated themselves and areas of focus in the future, as opposed to assessments and ratings.
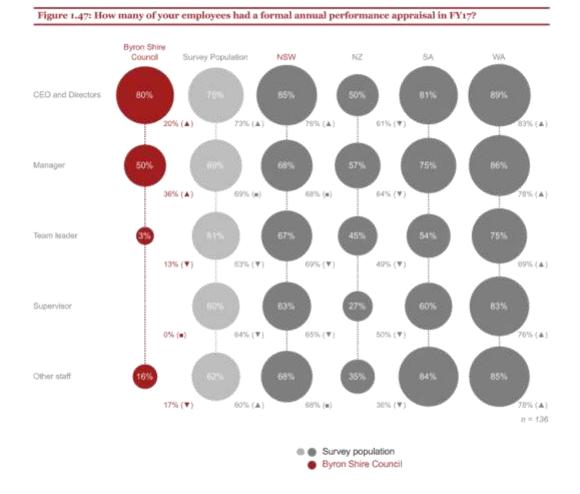
Our survey continues to highlight that CEOs and directors (75%) are more likely to receive a formal performance appraisal, compared to staff members at any other level, up from 73% in the previous year. Remaining stable is the 69% of managers receiving formal feedback during the year.

WA councils have a strong performance management culture with increases from prior year across all staff levels. At least three quarters of staff within each staff received a formal performance appraisal.

Conversely, we see a dip in the performance management culture across NZ councils. We see a decline in the percentage of employees across all staff levels compared to the prior year. This is particularly apparent for staff at the level of supervisor, which has decreased to 27%, down from 50% in the prior year.

Across all staff levels in NSW councils, the provision of formal feedback either remains unchanged or has reduced

slightly, except for 85% of CEOs receiving a performance appraisal, up from 76% in the prior year.

Regular informal feedback and recognition is just as important as annual or half-yearly formal appraisals. It is important to recognise achievements, identify performance issues and plan for further development needs.

We encourage councils to re-balance the conversations to be forward looking, focus on future career paths and the capability and development required to achieve this, along with providing constructive feedback on past performance.

Figure 1.47: How many of your employees had a formal annual performance appraisal in FY17?

n = 136

Survey population
Byron Shire Council

Workforce

Are your workforce costs growing faster than your revenue?

Productivity

It is very challenging to measure productivity; there are many variables that can influence revenue (outputs) and costs. As a result, we present a directional view only, looking at councils' overall relative performance in this area and identifying performance segments on the charts below, as a guide to help councils plan for the future.

Our productivity segmentation measure aims to assess whether councils are improving the balance between the level of their controllable outputs (measured by controllable revenue), compared to the increasing costs of their workforce.

There continues to be a clustering of councils (33%, up from 30% in the prior year) within the 'prudent growth' area of

the chart. This suggests councils are increasing their controllable revenues at a faster rate than their workforce costs.

The continuing shift away from the 'austerity' area of the chart, with 18% of councils (down from 23%) sitting in this area and the ongoing 31% of councils in 'aggressive growth', indicates that, during the 2016–17 financial year, while councils have experienced reasonable output growth, it has been difficult to keep up with the growth in workforce costs.

There are many factors which could contribute to these results, and councils should consider how the following may affect their productivity and growth:

• Introduction or improvement of automation, and other process optimisation measures

• Workforce review: does your workforce have capacity? Are all roles needed? Can your current staff levels cope with the ramifications of growth?

• Increase to revenue or top line based on the services you provide and the recovery of costs
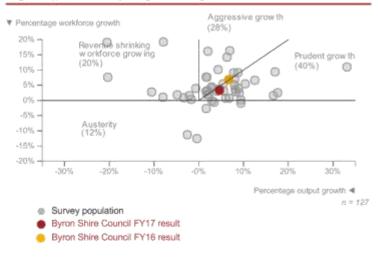
• External factors, such as population growth, land values, government changes and legislations, could also be affecting the output growth and therefore overall productivity.

Figure 1.48: Productivity compared to survey population

Definitions

Output growth is year-on-year controllable revenue growth that excludes revenue from providing outsourced services, all types of grants and domestic waste management revenue.

Workforce growth is year-on-year growth in total employee costs.

Figure 1.49: Productivity compared to Regional councils

- Survey population
- Byron Shire Council FY17 result
- Byron Shire Council FY16 result

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Workforce

How do you manage lost time injury incidents?

Lost-time injuries

In Figure 1.50, we have plotted each council's rate of incidents (measured as the number of incidents per 100 employees) against the average claim cost. We acknowledge that councils with a higher percentage of outdoor workers may have a higher rate of incidents.

It is encouraging to see that, during the 2016–17 financial year, there is a decrease in the average rate of incidents across all age groups of workers.

While the two higher age brackets (60+ and 46-60) have seen decreases in the number of incidents per 100 employees, from 3.8 to 2.3 for those aged 60+ and from 3.7 to 2.4 for those aged 46-60, they continue to be the highest relative number of incidents per 100 employees. Councils should further explore the nature of these

incidents so they can implement awareness and wellbeing programs that target the 46-60 and 60+ age groups.

NZ councils continue to have a much lower number of incidents per 100 employees (all age brackets at or below 1 incident per 100 employees), and this is reflected in a much lower volume of 11 days lost per 100 employees, compared to 99 in WA, 73 in SA and 63 days lost per 100 employees in NSW councils. The nature, shape and mix of council services will invariably impact the extent of workplace injuries, and where outsourcing is used to deliver services it is important that councils contract with a provider that manages this risk appropriately and that the contract itself incentivises safe work practices.

Key considerations
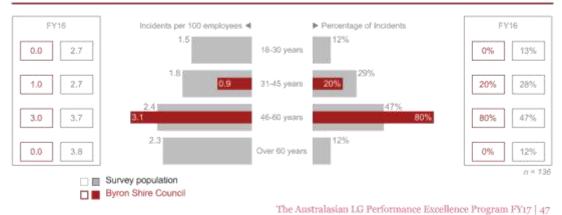
- Is your number of incidents per 100 employees trending downwards?

- Do you use the data you collect on incidents to support and improve your prevention program?

- What was the nature of the incidents? How did they rate on a scale of very serious to minor?

- Do you regularly report volume of incidents by service area to council?

Figure 1.50: Lost time injury incidents

▼ Average claim cost per incident

Number of incidents per 100 employees ◄

n = 136

- ⬤ Survey population
- ⬤ Byron Shire Council FY17 result
- ⬤ Byron Shire Council FY16 result

Your council lost **43 days** *per 100 employees in FY17*

NSW councils lost **63 days** *per 100 employees in FY17*

Figure 1.51: Incidents per 100 employees by age bracket

FY16		Incidents per 100 employees ◄			▶ Percentage of incidents			FY16	
0.0	2.7	1.5		18-30 years		12%		0%	13%
1.0	2.7	1.8	0.9	31-45 years	20%	29%		20%	28%
3.0	3.7	2.4 / 3.1		46-60 years	47% / 80%			80%	47%
0.0	3.8	2.3		Over 60 years		12%		0%	12%

n = 136

- ☐ ⬛ Survey population
- ☐ ⬛ Byron Shire Council

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Finance

of finance function effort is devoted to business insights

median cost of finance as a percentage of revenue

business days for top quartile councils to close and report financial results

Operations

Finance

Workforce

Finance

Finance Trend Summary
Byron Shire Council

● NSW Survey population
● Byron Shire Council

	FY 14	FY 15	FY 16	FY 17	Change from FY16 to FY17
1. CFO works closely with general manager and leadership team	Yes / 44% (Yes)	Yes / 59% (Yes)	Yes / 64% (Yes)	Yes / 61% (Yes)	
2. Finance employees with at least a bachelor degree	34% / 21%	36% / 21%	37% / 18%	36% / 18%	■ 0% ▼ 1%
3. Finance function effort - transactional tasks	67% / 66%	67% / 62%	61% / 60%	60% / 52%	▼ 9% ■ 0%
4. Finance function effort - business insight tasks	17% / 8%	20% / 8%	21% / 10%	22% / 10%	■ 0% ▲ 1%
5. Finance function effort - compliance and control	25% / 16%	25% / 18%	29% / 19%	38% / 18%	▲ 9% ▼ 1%
6. Cost of finance as a percentage of revenue	1.8% / 1.4%	1.8% / 1.2%	2.3% / 2.3%	2.0% / 1.3%	▼ 1.0% ▼ 0.3%
7. Frequency of reporting financials to senior management team	Monthly / 50% (Monthly)	Monthly / 54% (Monthly)	Monthly / 52% (Monthly)	Monthly / 64% (Monthly)	
8. Total elapsed days for the budgeting process	141 / 140	140 / 140	154 / 134	136 / 120	▼ 34 ▲ 2
9. Rates and annual charges collected by end of quarter 2	58% / 57%	57% / 56%	57% / 56%	56% / 56%	■ 0% ▼ 1%
10. Capital expenditure per resident (A$)	$510 / $380	$490 / $350	$800 / $710	$880 / $720	▲ $170 ▼ $80

Finance

Finance partnering with the business

The role of finance

The role finance plays within an organisation continues to extend beyond the traditional finance function. Top performing finance teams are playing a key role in supporting the strategic direction and growth of their organisations.

A key feature of these top performing finance teams centres around not being content with business as usual. Instead, focus is on continual year-on-year improvements, challenging the status quo, and being able to add value by collaborating with other functions in the organisation. This is in contrast to teams

stuck in the traditional finance function mindset, typically with leaders who aren't committed to agility and innovation.

This aligns with the continued importance of local government having an experienced CFO or senior finance professional who embraces and promotes strategic transformation, while also safely and reliably managing the reporting and control functions of the council.[1]

We continue to see the CFO playing an increasingly important role in the development of the strategic vision in local government, with 72% of councils reporting that their CFO works closely

with their CEO and senior executives to define the business strategy (down slightly from 73% in the prior year).

Consistent with the prior year, NZ councils have CFOs who are more engaged in a strategic role (89%), compared to 59% of SA councils and 61% of NSW councils. Importantly, WA councils have seen a significant increase from the prior year, with 84% of CFOs playing a key role in the development of the council's business strategy (up from 71%).

....

Finance has a critical role to play in ensuring organisations continue to thrive. This requires investment in new practices, technologies, and skills that increase the business' capacity to adapt at pace.[1]

....

Figure 2.1: What role does the CFO play in the development of the council's business strategy?

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1 PwC global Finance Effectiveness Benchmark Report 2017, 'Stepping up: How finance functions are transforming to drive business results'.

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Finance partnering with the business

The role of finance (continued)
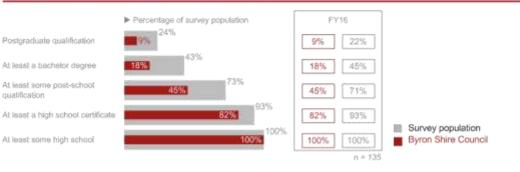
Finance professionals who are experienced, creative and have an analytical mindset are best placed to deliver meaningful insights that drive strategic transformation. Creating a dynamic finance team often attracts high calibre candidates with a higher level of education.

Our overall survey findings show only 43% of finance employees have at least a bachelor's degree. NZ councils tend to employ higher-educated finance staff, with 56% holding at least a bachelor's degree, followed by 49% of SA councils (compared to 36% in NSW and 40% in WA councils).

Key considerations

- Has your CFO and finance team identified a clear value proposition – one that leads to a more informed performance discussion with the business units and the leadership team?

- Is your finance function embracing change and focused on engaging in a more visual and analytical manner with the business?

- Is your finance team receiving the right amount and type of training and experiences in order to develop their skill set for the evolving expectations being placed upon them?

Figure 2.2: Finance employee qualifications (cumulative)

▶ Percentage of survey population

	Survey population	Byron Shire Council	FY16 (Byron)	FY16 (Survey)
Postgraduate qualification	24%	9%	9%	22%
At least a bachelor degree	43%	18%	18%	45%
At least some post-school qualification	73%	45%	45%	71%
At least a high school certificate	93%	82%	82%	93%
At least some high school	100%	100%	100%	100%

Survey population
Byron Shire Council

n ≈ 135

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Finance

How are you leveraging technology to create real time insights?

Finance function activities

Our findings show an increase in the time devoted to value-adding business insight activities this year. The upward shift to 24% of time spent on business insight activities (22% in the prior year) has been offset by a reported downturn in transactional efficiency tasks (59%, down from 62%) and a slight uptick in compliance to 17% (16% in the prior year).

This measurement is based on employed resources only, and so those councils that have outsourced or share some transactional functions (eg. 6% of councils that outsource or share accounts receivable/payable and 3% for Payroll) should expect a lower proportion of effort allocated to transactional efficiency.

Increased effort on business insights is reflected across all types of councils, ranging from 28% in metro councils, 22% in rural councils and 20% in regional councils. Our metro council result of 28% surpasses the global benchmark of 24% of time devoted to business insight activities, as evidenced in the 2017 PwC finance effectiveness benchmark report,[2] where results were drawn from over 600 PwC finance benchmark engagements across different industries around the globe.

The global findings highlight how leading finance organisations are delivering greater commercial impact by harnessing the skills of the insight-focused employees to analyse and interpret large datasets.

The key elements of a high performing finance function include three areas[3]:

Business insight relates to effective ways of working so that finance can guide the business to enable sustainable business growth, and provide relevant and timely performance management information.

Efficiency means improving task performance in a timely and cost-effective manner by simplifying processes enabled by technology, and outsourcing and using shared services for non-core activities to make transactions more efficient.

Compliance and control relates to the need to balance sustainable cost without constraining the business by optimising risk management, and remaining flexible enough to accommodate future changes in regulation.
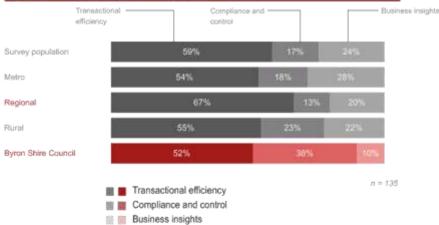
As a result of digital advances, the opportunity now exists for finance teams to transition to more timely and insightful management reporting. Using the latest business intelligence and data visualisation packages allows for more self-service information gathering and analysis that in turn creates more capable users.

In addition, emerging technologies such as artificial intelligence and automation can increase efficiencies and quality within finance transaction processes while reducing costs in the long term. More importantly, investments in new technologies can provide the finance function the capacity to spend more time on analysis and value adding activities.

Key considerations

- When did you last critically assess how much time is spent in finance doing what no longer needs to be done?

- Have you reviewed how many tasks or processes could be automated or eliminated to improve efficiency?

- Have you created an inventory of finance reports produced and then researched how they are being used by the business?

- Have you invested in technology to support better analysis, and reduce the amount of time spent gathering and manipulating data?

- Are your finance teams empowered with online collaboration tools and mobile computing to create flexibility in working practices?

- Have you explored the use of data visualisation tools as a way to provide faster insightful analysis? Gartner's research identifies different options to support organisations wishing to select a product in visual analytics and business intelligence.[4]

Figure 2.3: Finance function effort by process

	Transactional efficiency	Compliance and control	Business insights
Survey population	59%	17%	24%
Metro	54%	18%	28%
Regional	67%	13%	20%
Rural	55%	23%	22%
Byron Shire Council	52%	38%	10%

n = 135

- Transactional efficiency
- Compliance and control
- Business insights

2 PwC Global Finance Effectiveness Benchmark Report 2017, 'Stepping up: How finance functions are transforming to drive business results'.
3 Ibid.
4 https://www.gartner.com/doc/3611117/magic-quadrant-business-intelligence-analytics. Last visited on 29/11/2017.

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What is your finance function really costing you?

Finance function cost

Finance faces ongoing pressure to instil a culture of innovation to deliver value, while at the same time sustaining a focus on efficiency and cost. It is, therefore, important to understand the cost of the finance function when assessing the current value derived and changes that may be required to create further efficiencies.

Based on the most recent global PwC finance effectiveness benchmarking study, global finance functions are costing a median of 0.86% (finance cost as a percentage of revenue), and top quartile finance functions are costing 0.55%.[5]

By comparison, the overall median local government result of 2.2% is regarded as high (albeit a slight fall from 2.3% in the prior year). This decrease in the median finance cost as a percentage of revenue was a result of NSW and WA councils

falling, and NZ councils stabilising. Interestingly, the finance teams in these three jurisdictions have been able to provide more value-adding business insights, compared to the prior year; an area that is usually associated with higher finance salaries.

NSW councils have the lowest median finance cost, with 2% (down from 2.3% in the prior year) and have focused more on business insight effort, increasing from 21% in FY16 to 22% in FY17.

In comparison, our new SA councils spend 1.7 times more on finance as a cost of revenue (3.4%), compared to NSW councils. This is likely related to the 27% of overall finance FTE effort on business insight activities, however this cost does seem high and we recommend a review takes place especially for councils above the median cost of 3.4%.

NZ councils deliver finance with a median cost of revenue at 2.4%, with 30% of finance time devoted to business insights (up from 27% in the prior year). The higher business insight time suggests a strong analytical focus possibly driven by the recent 3 year long term planning process undertaken by NZ councils.

Meanwhile, the median cost of finance in WA councils has reduced from 2.6% to 2.5%, and 19% of time is devoted to business insights (up from 17% in the prior year).

Opportunities still exist for local government finance functions ranging from exploring automation, elimination of low value reports, and improved efficient use of capacity to shared services or outsourcing.

Figure 2.4: Cost of finance as a percentage of revenue (council jurisdiction)

	FY16
NSW	2.3%
NZ	2.4%
SA	-
WA	2.6%

13% of all respondents are equal or lower

87% of all respondents are higher

n = 128
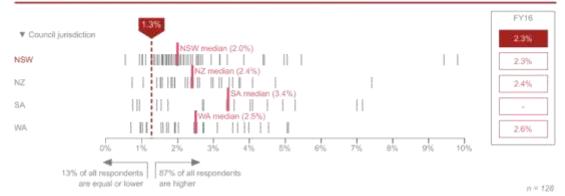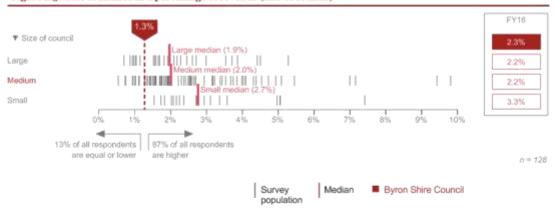
Figure 2.5: Cost of finance as a percentage of revenue (size of council)

	FY16
Large	2.2%
Medium	2.2%
Small	3.3%

13% of all respondents are equal or lower

87% of all respondents are higher

n = 128

| Survey population | | Median | | ■ Byron Shire Council |

5 PwC global Finance Effectiveness Benchmark Report 2017, 'Stepping up: How finance functions are transforming to drive business results'.

Finance

How efficient is your finance function?

Days to report and manual journals

Month-end close and reporting is a core process within the finance function. It is crucial this is completed efficiently and accurately to support efficient decision making by the CFO and senior management. A prolonged monthly close-to-report cycle time can indicate an unbalanced amount of data-gathering effort and focus, rather than value-driven analysis and interpretation of results.

Our survey results show that the median council operates with a close-to-report cycle within 10 days. However, top quartile councils are able to provide financial results to senior management in just 7 days.

Councils taking more than the median of 10 days to provide management with financial results, have an opportunity to improve this aspect of their finance

function. Otherwise, CFOs and senior management have practically no time to interpret and act on the results before the next month-end close begins.
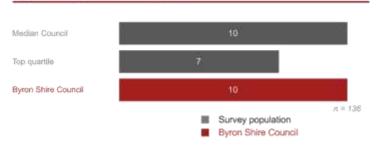
An indicator of an efficient finance function can be the amount of manual journals processed in any given year.

Our findings show that 26% of surveyed councils are processing more than 1,500 manual journals annually. If we assume that each manual journal takes approximately three minutes to process, then this equates to one person spending 75 hours a month or around 10 days per month manually processing journals.

Quality control is also a factor to consider and involves additional manager resource effort to review the manual journals for accuracy and completeness.

An upfront investment in quality control may create efficiencies in the close-to-report process through a reduction in 'wasted time' spent identifying and resolving errors. The PwC finance effectiveness benchmarking study[6] identifies that 44% of processing time could be eliminated by investing in automation and adopting more efficient techniques during management reporting.

Strategies to reduce manual journals include automating all recurring journals and setting materiality thresholds for reclassification entries. This would allow councils to redeploy finance resources to more value-adding tasks, while also creating a more robust control environment.

Key considerations

- Have you standardised your data and investigated or implemented an automated approach to data collation?

- Do you have a smart and efficient close-to-report cycle?

- Are you using low-cost data analytics tools to improve data visualisation allowing for more rapid interpretation of results?

Figure 2.6: Days to close and report

Median Council	10
Top quartile	7
Byron Shire Council	10

n = 136

- ■ Survey population
- ■ Byron Shire Council

Figure 2.7: What was the total number of manual journals processed in the year ending 30 June 2017?

	Survey Population	Large	Medium	Small
1-500	37% / 38% (▼)	11% / 11% (■)	33% / 34% (▼)	90% / 71% (▲)
501-1,500	37% / 37% (■)	37% / 32% (▲)	44% / 41% (▲)	5% / 25% (▼)
1,501-10,000	/ 23% (▲)	41% / 47% (▼)	23% / 23% (■)	5% / 4% (▲)
Over 10,000	/ 2% (■)	11% / 11% (■)	/ 1% (▼)	/ 0% (■)

n = 136

- ● Survey population
- ○ Byron Shire Council

6 PwC global finance effectiveness benchmark report 2017, 'Stepping up: How finance functions are transforming to drive business results'.

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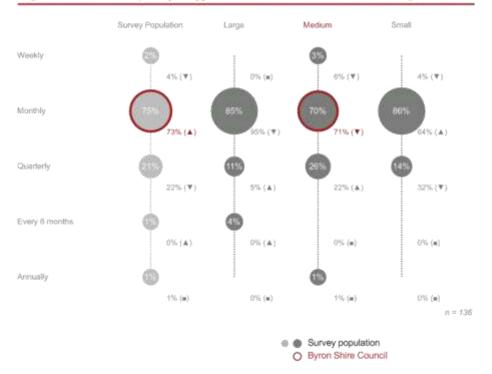
Delivering financial information to senior management

Reporting to management

A key role of the finance function is to provide timely financial reporting to the senior management team. When it comes to reporting on a monthly basis, we observe an upward shift to 75% of council finance teams sharing approved financial information with senior management, compared to 73% in the prior year.

NZ and WA councils are more likely to report monthly, with 96% and 91% respectively. NSW councils have shifted their focus to more timely reporting, with 64% reporting monthly (up from 52% in the prior year). Just over half of SA councils (53%) report monthly, with 41% reporting quarterly.

In small councils, we continue to observe a dramatic upward shift in the frequency of financial reporting to senior management. The move to monthly financial reporting is now evident in 86% of small surveyed councils, compared to just 44% back in FY14. This is a reflection on NSW councils and the improvement they are making, given NSW councils have always dominated the small council survey population.

Percentage of councils reporting financial information on a monthly basis

91% 53% 64% 96%

Figure 2.8: How often do you report approved financial information to senior management?

	Survey Population	Large	Medium	Small
Weekly	2%		3%	
	4% (▼)	0% (■)	6% (▼)	4% (▼)
Monthly	75%	85%	70%	86%
	73% (▲)	95% (▼)	71% (▼)	64% (▲)
Quarterly	21%	11%	26%	14%
	22% (▼)	5% (▲)	22% (▲)	32% (▼)
Every 6 months	1%	4%		
	0% (▲)	0% (▲)	0% (■)	0% (■)
Annually	1%		1%	
	1% (■)	0% (■)	1% (■)	0% (■)

n = 136

● ● Survey population
○ Byron Shire Council

Finance

Delivering financial information to senior management

Sharing financial results

In order for the finance function to provide the most relevant financial information at the optimal time, finance team members need to build relationships with their peers in other areas of the business to allow for a better understanding of what key insights are needed to make business decisions.

Encouraging this collaborative approach between the finance team and other business units can lead to improved efficiencies, increased value–add deliverables and a level of empowerment among the finance team.

Our survey results suggest extensive sharing of financial results with the CEO, directors and managers. Lower levels of management are less likely to receive this information however, with our collected responses indicating that 57% of team leaders and 35% of supervisors are provided with the ability to draw insights from financial information.

NZ and WA councils consistently outperform in sharing financial information across all levels of staff in a council, especially when compared to NSW councils. Interestingly, only 85% of managers in NSW councils receive

financial information, compared to 100% and 97% of managers in NZ and WA councils respectively. In addition, a much lower percentage of team leaders (44%) and supervisors (28%) in NSW councils are given the opportunity to understand their council's financial results, compared to all other council locations.

SA councils perform well when sharing financial information at the senior management levels (at least 94%), but sharing with team leaders and supervisors falls sharply; just 53% of team leaders and 29% of supervisors receive financial updates.

Sharing financial results and business insights with various levels across a council is one way to create a culture where employees within business units become more engaged with the council's key financial performance drivers.

Exposing team leaders and supervisors to a variety of financial metrics allows them to absorb and understand these key business drivers – instilling a sense of ownership and responsibility as they consider what it means to their business unit and team – before they move into the more senior levels of management.

Key considerations

- Are you encouraging finance staff to engage with the business to better understand what insights are needed for effective decision making?

- Is peer to peer relationship building across finance and other parts of the business rewarded and encouraged?

- Are you building resilience in your finance team – are they empowered to initiate more effective planning and cross-skilling between finance staff so they can meet the demands of internal stakeholders?

Figure 2.9: Who receives financial updates about council's performance from the finance department?

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Balancing insight and efficiency

Budgeting

Most finance teams would like to focus more on delivering insights and assisting in forward focused business decisions during the budget process, as opposed to just gathering and manipulating data. The PwC finance effectiveness benchmarking study[7] notes that the value of the budget comes from the collaboration on business decisions and connected thinking, rather than the projection itself or the mechanical process behind the budget. When budgets are produced they then need to be used in the business as a critical management tool to drive decisions and behaviours.

Councils can streamline the budget preparation process by identifying bottlenecks in the process. The PwC finance effectiveness benchmarking study[8] sets out that 35% of processing time could be eliminated by investing in automation of the budgeting and forecasting process.

When assessing the time councils spend on the budgeting process, we measure from the date the process officially begins to the date the budget is finalised and loaded into the accounting system. The median results for the 2016–17 financial year budget process remains relatively high across councils of all sizes, ranging from 115 business days in small councils, to 174 business days in large councils. The overall median remains on par with last year at 143 business days.

Analysing by council jursidiction, shows WA councils completing the cycle in the shortest timeframe, with a median of 118 days and a reduction from 121 days in the prior year. At the other end of the spectrum, NZ councils come in with a median of 205 days – adding 26 business days to the budget process from the previous year.

Looking deeper into the budget process in Figure 2.11, we see that finance teams continue to spend most of their time preparing and refining the budget to obtain senior management approval, with 67% of the total budget time spent in this first phase. We continue to see WA councils spending more time (82%) on the first phase of preparation, compared to 63% for both NZ and NSW councils and 66% for SA councils.

While the regulated nature of the local government environment is undoubtedly a factor in the way budgets must be prepared and delivered, councils should remain alert to the fact that a longer process will unavoidably consume more resources from across the organisation.

Figure 2.10: Total elapsed business days for the budgeting process
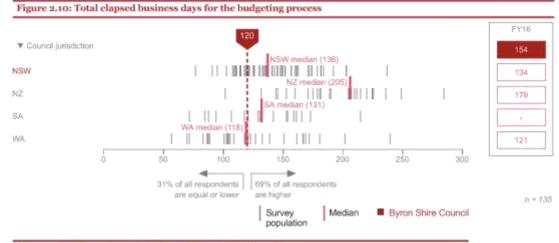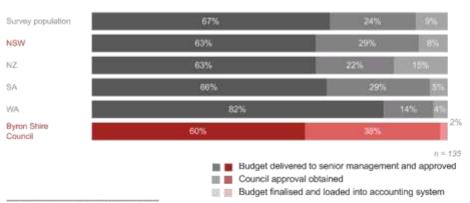
Figure 2.11: Proportion of total elapsed budget days by stage

7 PwC Global Finance Effectiveness Benchmark Report 2017, 'Stepping up: How finance functions are transforming to drive business results'.
8 Ibid.

Finance

Balancing insight and efficiency

Forecasting

Forecasts can provide management with the necessary information to assess and respond to changing financial results and can be very valuable in orienting management towards managing emerging events, as well as highlighting business risks and issues in a timely manner.

Management should be understanding and acting on the forecast variances by highlighting appropriate recommendations and remedies required at that time. These actions should be monitored closely to ensure the desired outcomes are achieved.
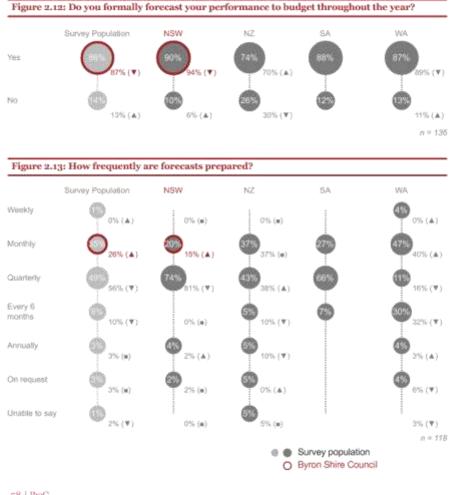
Although down from 94% in the prior year, NSW councils remain particularly strong in this area with 90% of councils formally forecasting performance.

Meanwhile, 74% of NZ councils formally forecast performance to budget (up from 70% in the prior year).

Across the board, we see a tendency in local government to only forecast every quarter, with just under half of councils (49%) forecasting at this level of frequency. However, there is an upward trend to monthly forecasting, with 35% of councils compared to 26% in the prior year.

In NSW and SA, a small proportion of councils forecast monthly (20% and 27% respectively), with the majority preparing forecasts quarterly (74% and 66% respectively). In contrast, 47% of WA and 37% of NZ councils prepare forecasts monthly.

Key considerations

- Have you considered how automation could improve the time spent on the planning, budgeting and forecasting process?

- What processes do you undertake to understand forecast variances to budget and how do you work to mitigate future risk?

- Do you use your budgets and forecasts as a critical management tool to drive discussion, decisions and behaviours?

Figure 2.12: Do you formally forecast your performance to budget throughout the year?

Figure 2.13: How frequently are forecasts prepared?

● ● Survey population
○ Byron Shire Council

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Source of income

Revenue profile

The mix of income associated with local government can be vastly different between Australian and New Zealand councils due to diverse scopes of service and responsibility as well as a different relationships with other levels of government.

We continue to observe the lower reliance NZ councils place on revenue derived from government grants (7% of income), with most of the revenue funded by residents and businesses through rates and annual charges (61% of all income). We also acknowledge that NZ councils continue to derive a higher proportion of income from alternative income streams, with 14% sourced in this way; this is more than double that of NSW (5%), SA (5%) and WA councils (6%).

In addition, our findings show a contrast among the surveyed Australian councils. NSW councils continue to source a smaller amount of revenue from rates and annual

charges (44%), compared to WA councils deriving 55% and SA councils deriving 69% of their revenue from rates and annual charges.

This stems from the fact that over 85% of the NSW surveyed councils are rural or regional councils that rely on government grants to manage their extensive road network. As such, the reliance upon grants differs significantly, with 31% of total income in NSW councils represented by grants (no change from the prior year), compared to only 20% in WA, 15% in SA and 7% in NZ councils (up from 6% in the prior year).

It is essential that councils continually review their current revenue profile, looking for additional or different sources of income. It is important to determine how best to gain more control over this critical component for future sustainability.

Key considerations

- Does your council have the right skills, abilities, and resources to identify additional revenue opportunities?

- What dormant opportunities lie in your existing revenue streams, fees and services?

- Are your finance teams aware of all the various revenue streams available to your council?

- Have you carefully analysed new service pricing options in a bid to optimise revenue?

Figure 2.14: FY17 revenue profile

Finance

Optimising working capital

Collection of rates and annual charges
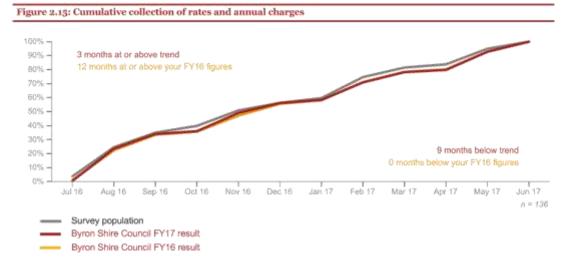
Fast and efficient rates and annual charges collection supports councils to better understand whether working capital is being managed effectively.
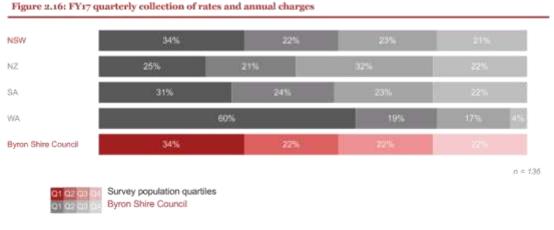
Facilitating easy payment options for rate payers, as well as automating financial processes, can help build agility into labor-intensive activities, and improve the relationship between councils, ratepayers and suppliers.

Figure 2.15 shows the cumulative collection of rates and annual charges compared to the survey population, and figure 2.16 displays the quarterly cash collections during the 2016–17 financial year.

Geographically, WA councils continue to front load their cash collections from rates and annual charges compared to the other council jurisdictions, with 60% of this pool of funds collected by the end of quarter one. In comparison, NZ collect 25%, SA 31% and NSW councils collect 34% of their rates by the end of quarter one.

The offer of incentives for annual upfront rate payments or the imposition of a small fee for late payments, continue to benefit WA councils by positively impacting cash flow. Other options used by WA councils include offering discounts and entry into early payment prize draws. Alternatively, if ratepayers choose to pay in instalments, a small interest fee is charged plus an instalment fee for quarters 2, 3 and 4.

The infographic shows the dollar-value equivalent of 1% of rates and annual charges collected. Based on this, councils can calculate how far ahead or behind they may be, quarter by quarter.

Every 1% is equal to **A$378k** for your council

Figure 2.15: Cumulative collection of rates and annual charges

3 months at or above trend
12 months at or above your FY16 figures

9 months below trend
0 months below your FY16 figures

n = 136

— Survey population
— Byron Shire Council FY17 result
— Byron Shire Council FY16 result

Figure 2.16: FY17 quarterly collection of rates and annual charges

NSW	34%	22%	23%	21%
NZ	25%	21%	32%	22%
SA	31%	24%	23%	22%
WA	60%		19%	17%	4%
Byron Shire Council	34%	22%	22%	22%

n = 136

Q1 Q2 Q3 Q4 Survey population quartiles
Q1 Q2 Q3 Q4 Byron Shire Council

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Finance

Tracking and managing capital projects

Capital project expenditure

The effective management of capital expenditure is particularly important due to local government's asset-intensive nature and the limited capacity of council operating budgets to absorb variations in the financial outcomes of capital projects.

When analysing capital expenditure per resident by council type, we continue to observe a range from a metro council median of A$310 per resident (or NZ$328) to a rural council median of A$975 (or NZ$1,032) per resident.

A key component of this higher spend per resident in rural councils is the maintenance required for large-scale regional infrastructure such as, but not limited to, roads and bridges. In some cases, this infrastructure investment also benefits the state or jurisdiction such as primary roads running through a local government area connecting key cities or towns.

Geographically, NSW councils continue to have the highest capital spend per resident, with a median of A$720 (NZ$762) compared to the other council jurisdictions where the median capital spend ranges from A$480 (NZ$508) to A$520 (NZ$551).
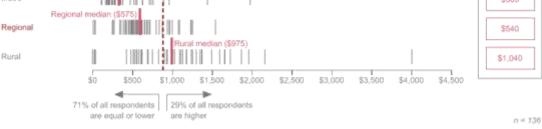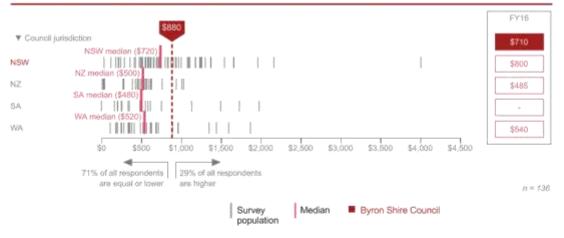
Figure 2.17: Total capital expenditure (A$) per resident (type of council)

Figure 2.18: Total capital expenditure (A$) per resident (council jurisdiction)

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Operations

corporate service FTEs per $10m of total operating expenditure

of councils offer online payments to their customers

of councils outsource or share IT hosting and support of systems

Operations

Operations Trend Summary
Byron Shire Council

● NSW Survey population ● Byron Shire Council	FY14	FY15	FY16	FY17	Change from FY16 to FY17
1. Corporate service staff per 100 employees	13.2 / 13.2	14.2 / 12.4	13.3 / 12.2	13.1 / 12.6	▲0.4 / ▼0.2
2. Customer service staff per 100 employees		3.6 / 3.4	3.7 / 2.2	3.4 / 3.1	▲0.9 / ▼0.3
3. Finance staff per 100 employees		5.2 / 4.0	4.4 / 4.1	4.4 / 3.8	▼0.3 / ■0.0
4. HR staff per 100 employees		2.6 / 2.2	2.6 / 2.4	3.1 / 2.4	▲0.5 / ■0.0
5. IT staff per 100 employees		3.0 / 2.7	3.3 / 2.9	3.0 / 2.7	▼0.6 / ▲0.1
6. Formal IT stategy in place	Formal 53% (Formal)	Formal 62% (Formal)	Formal 55% (Formal)	Formal 61% (Formal)	
7. Effectiveness of IT systems	Adequate 61% (Adequate)	Adequate 64% (Adequate)	Adequate 64% (Adequate)	Adequate 62% (Adequate)	
8. IT spend per employee (A$)	$7,675 / $4,699	$8,191 / $5,137	$8,327 / $5,535	$6,939 / $5,514	▼$1,386 / ▼$21
9. Customer service FTE per 10,000 residents	2.6 / 1.9	2.4 / 2.2	2.6 / 1.4	2.4 / 2.3	▲0.9 / ▼0.2

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Operations

Fostering productive corporate service functions

Corporate services

Productive corporate service functions aim to cultivate effective and efficient business processes in an effort to provide critical information, insights and services across a council. This then enables management to make sound decisions for the future.

Our program focuses on four specific corporate services: customer service, finance, human resources and information technology (IT). These corporate services represent 9% of the total council operating expenses, with 11% in SA, 9% in NZ and 8% in both NSW and WA councils.

The resource split between the four areas has remained largely unchanged from last year, with finance FTEs comprising a third (33%), customer service and IT FTEs representing 26%, and 15% in the HR function. There is an interesting trend in small councils, with the proportion of customer service FTEs declining to 27%, compared to 37% in the prior year. Although finance FTEs now comprise 48% of corporate service FTEs in small councils (up from 44% in the prior year), this is a result of the sharp decline in customer service FTEs, as opposed to a rise in finance resources.

4.3 Your corporate service FTEs per $10M total operating expenditure

5.2 NSW's corporate service FTEs per $10M total operating expenditure

Corporate services represent **7%** of your total operating expenditure

Corporate services represent **8%** of NSW's total operating expenditure
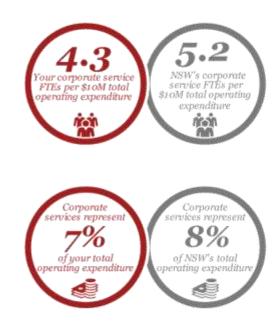
Figure 3.1: Breakdown of corporate service full-time equivalents

	Byron Shire Council	Survey Population	Large	Medium	Small
Customer Service	23%	26%	27%	25%	27%
	16% (▲)	26% (●)	26% (▲)	25% (●)	37% (▼)
Finance	32%	33%	30%	35%	48%
	36% (▼)	33% (●)	29% (▲)	36% (▼)	44% (▲)
Human Resources	23%	15%	16%	15%	15%
	18% (▲)	14% (▲)	14% (▲)	14% (▲)	10% (▲)
Information Technology	22%	26%	27%	25%	10%
	30% (▼)	27% (▼)	31% (▼)	25% (●)	9% (▲)

n = 136

● ● Survey population
● Byron Shire Council

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Operations

Fostering productive corporate service functions

Corporate services (continued)

In both large and small councils, we observe a decline in customer service resourcing, with 4.3 FTE per 100 employees in large councils (down from 4.7 in the prior year) and 5.4 in small councils (down from 6.4 in the prior year). The allocation of resources to customer service, when comparing large and small councils, now only differs by 1.1 FTE per 100 employees (compared to a larger 1.7 FTE difference in the prior year).

As expected, large councils have the ability to benefit from economies of scale and this is most apparent in finance where large councils operate with 4.6 FTE per 100 employees, compared to 7.8 FTE in small councils.

Interestingly, in large councils there appears to be a move away from internally resourcing certain parts of the IT function, with IT now operating with 3.9 FTE per 100 employees, compared to 4.9 FTE a year ago. This is likely due to the increased outsourcing of IT hosting/support plus IT helpdesk, with 78% of large councils outsourcing IT hosting/support (up from 68% in the prior year) and 26% outsourcing the IT helpdesk (up from 21% in the prior year).

We encourage councils to consider the impact of the digital revolution when planning ahead and consider emerging technologies to increase efficiencies among internal processes to effectively balance corporate service FTEs and spending. Existing and new council employees play an important role in identifying opportunities to reduce duplication of effort, streamline manual processes and enhance automated reporting through the use of new technology.

Figure 3.2: Breakdown of corporate service staff per 100 employees

	Byron Shire Council	Survey Population	Large	Medium	Small
Customer Service	3.1	4.2	4.3	4.1	5.4
	2.2 (▲)	4.4 (▼)	4.7 (▼)	4.0 (▲)	6.4 (▼)
Finance	3.8	4.9	4.6	5.1	7.8
	4.1 (▼)	5.0 (▼)	4.8 (▼)	5.1 (■)	6.2 (▲)
Human Resources	3.1	2.3	2.4	2.2	2.7
	2.6 (▲)	2.2 (▲)	2.4 (■)	2.1 (▲)	1.4 (▲)
Information Technology	2.7	3.7	3.9	3.6	1.8
	3.3 (▼)	4.1 (▼)	4.9 (▼)	3.6 (■)	1.5 (▲)

n = 136

● Survey population
● Byron Shire Council

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Operations

Leading councils have an IT strategy

Importance of an IT strategy

Our overall survey results show a decline in the percentage of councils with a formal IT strategy that aligns to the business strategy. This is due to the new SA councils joining our program, with just 36% of SA councils having a formal IT strategy as well as a decline in NZ (down to 52%, from 64%) and WA councils (down to 52%, from 57%). NSW councils, on the other hand, are strengthening in this area, with 61% (up from 55%) now investing in a formal IT strategy.

The 2017 PwC Global Digital IQ Report surveyed 2,216 business and technology leaders and points to a connection between organisations that have more comprehensive digital strategies and those that achieve stronger financial performance.[1] The report goes on to say that a decade of Digital IQ has seen increased awareness of the business value of new technology adoption, but organisations have not adapted quickly enough to stay ahead of constant change. In some ways, they have regressed, as many organisations still take a passive approach to seeking out innovation.

Percentage of councils with a formal IT strategy in place

52% 36% 61% 52%
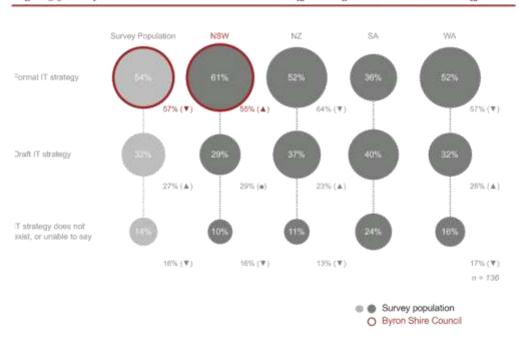
Figure 3.3: Does your council have a formal or draft IT strategy that aligns with the business strategy?

	Survey Population	NSW	NZ	SA	WA
Formal IT strategy	54%	61%	52%	36%	52%
	57% (▼)	55% (▲)	64% (▼)		57% (▼)
Draft IT strategy	32%	29%	37%	40%	32%
	27% (▲)	29% (■)	23% (▲)		28% (▲)
IT strategy does not exist, or unable to say	14%	10%	11%	24%	16%
	16% (▼)	16% (▼)	13% (▼)		17% (▼)

n = 136

● ● Survey population
○ Byron Shire Council

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[1] PwC 2017, Global Digital IQ Survey, 'A decade of digital: Keeping pace with transformation'.

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Leading councils have an IT strategy

Importance of an IT strategy (continued)

Digital strategies play a key role in ensuring that council operations are running as effectively and competitively as possible. Given the decline in the number of councils having a formal IT strategy, it is not surprising to see the majority of councils across all regions reporting just 'adequate IT systems', with the highest being 77% of NZ councils rating their systems as 'adequate'. Encouragingly, we observe 31% of NSW councils citing effective systems, followed by 23% of NZ councils.

The 2017 PwC Global Digital IQ Survey, goes onto explain that CEOs have become the champions for digital, with 68% now championing digital transformation, compared to just 33% back in 2007.[2]

It is crucial that the council leadership team actively supports and collaborates to create a clear vision, comprehensive plan and adoption strategy to support digital transformation in the coming years. This is an opportunity to move away from the status quo and create a dynamic workplace where technology enables efficiency for both employees and a better customer experience for the community.

Focus on human experience: Rethink how you define and deliver digital initiatives, consider employee and customer interactions at every step of the way, invest in creating a culture of tech innovation and adoption, and much more.[3]
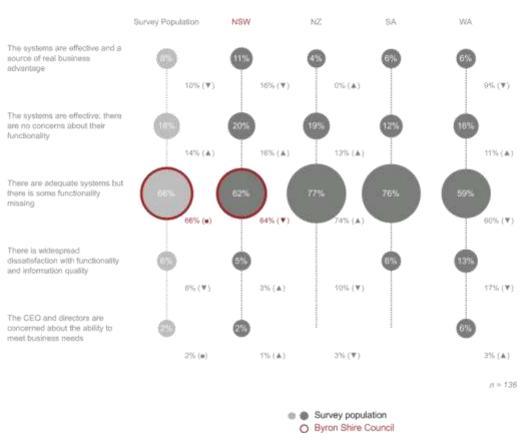
Key considerations:

- Have you assigned joint responsibility to both the business and IT to develop and monitor progress of the IT strategy?

- Do you position IT as a central capability identified as essential (not optional) in your strategic plan?

- Is your IT function seen as a core business support function with highly skilled team/s?

- Have you reviewed other councils approach to this key area?

Figure 3.4: How effective are IT systems at supporting your business?

2 PwC 2017, Global Digital IQ Survey, 'A decade of digital: Keeping pace with transformation'.
3 Ibid.

Operations
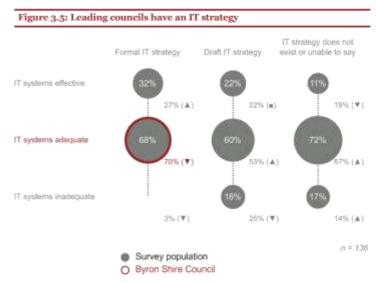
Leading councils have an IT strategy

Effective IT systems

The 20th PwC 2017 Global CEO Survey, shows that the number one business priority for CEOs is innovation, and coming in third is strengthening digital and technology capabilities.[4] The focus on both innovation and digital capabilities must be evidenced in an organisation's vision and the implementation of a formal IT strategy then aligns with this vision. Councils without a clear and formalised IT strategy should question how this affects the effectiveness of their IT systems, and whether this is inhibiting innovation to create a better employee and customer experience.

We can clearly see a correlation between councils that rate their IT systems as effective with those that have a formal IT strategy. Councils that rated their systems as effective were almost 3 times more likely to have a formal IT strategy in place (32%) compared to those without an IT strategy (11%). Consequently, there were no councils with a formal IT strategy that rated their IT systems as inadequate, compared to councils without an IT strategy (17%).

In line with having a formal IT strategy, comes the focus on the storage and use of council data to enable data analytics. This helps senior management better understand current state and start to drive more insightful decision making. Data was once critical to only a few back-office processes in the past, such as payroll and accounting, but today it is central to any business, and the importance of managing it strategically is only growing.[5]

Figure 3.5: Leading councils have an IT strategy

	Formal IT strategy	Draft IT strategy	IT strategy does not exist or unable to say
IT systems effective	32% — 27% (▲)	22% — 22% (■)	11% — 19% (▼)
IT systems adequate	68% — 70% (▼)	60% — 53% (▲)	72% — 67% (▲)
IT systems inadequate	3% (▼)	18% — 25% (▼)	17% — 14% (▲)

n = 136

● Survey population
○ Byron Shire Council

Key considerations:

- Does your leadership team actively champion digital transformation?
- Does your IT strategy align with the council's overall organisational objectives?
- Do you have a clear vision on how digital technologies can help deliver outcomes while also reduce cost?
- How will you acquire and develop the digital skills and capabilities you need in the future?
- How are you using your stored data to drive forward data-driven decision making?

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4 PwC 2017, 20th Global CEO Survey, 'The talent challenge: Harnessing the power of human skills in the machine age'.
5 https://hbr.org/2017/05/whats-your-data-strategy Last Visited on 27/11/2017.

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Investing in IT

IT spend

IT spend per employee continues to vary significantly geographically and across council size. This is to be expected in a single year given the cyclical nature of IT priorities, projects and investments.

Large and medium-sized councils spend almost double on IT per employee, compared to small councils. However, it is important to note that in small councils the dip last year, in FY16, to a median spend per employee of A$2.2k (NZ$2.3k) appears to be an exception, with the median spend now at A$3.9k per employee (NZ$4.1k); a spend more comparable to FY14 and FY15.

We continue to observe NZ councils spending relatively more on IT, with a median spend per employee of A$10.3k (NZ$11k). This is in stark contrast to NSW councils, with a median spend of A$5.5k (NZ$5.8k) per employee, a static result compared to the prior year. WA councils continue to spend a median of A$7.1k (NZ$7.5k) per employee.

Since joining our program, we see SA councils with the second highest median IT spend per employee, approximately 1.4 times the median spend of NSW councils. While a higher IT spend may indicate strong investment in digital

transformation, given only 36% of SA councils have a formal IT strategy, proper consideration of the components of the IT spend and how this links to the business strategy is the next step in certifying that the IT spend is appropriate.

We continue to encourage the council leadership team to identify business areas that can benefit from integrated IT systems, cloud computing, software developments and investment in experienced IT professionals.

Figure 3.6: IT spend (A$) per employee (size of council)
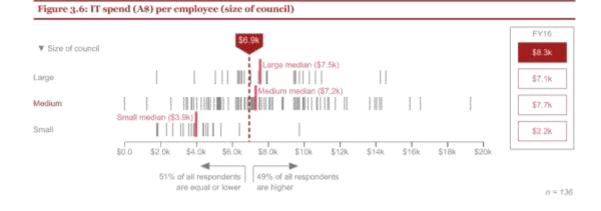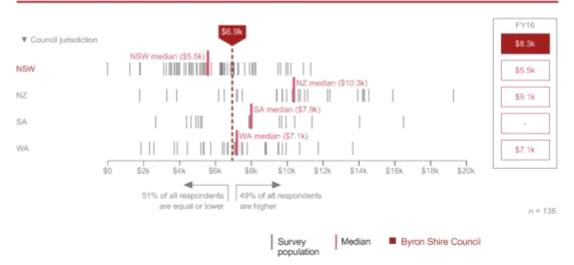
Figure 3.7: IT spend (A$) per employee (council jurisdiction)

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Operations

Managing your IT projects

IT priorities

Councils are facing greater pressure from both employees and the community to better interact and engage digitally with the council.

At the same time, budget constraints exist suggesting the very real need for a robust balancing act in terms of prioritising the competing demands of IT ongoing maintenance versus new IT initiatives and technology enhancements.
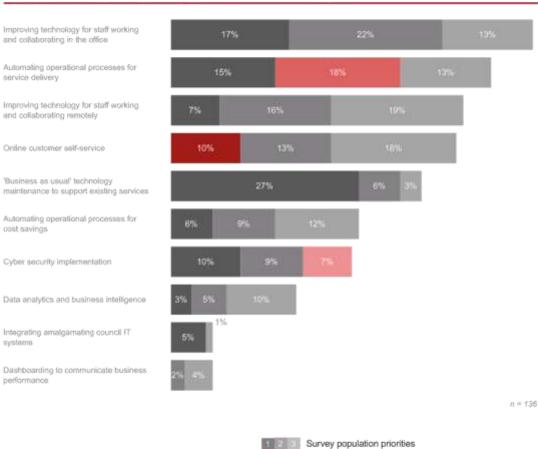
It is important then that IT priorities are aligned in a way to ensure efficient and cost effective delivery. In our program, we asked councils to rank a selection of IT priorities.

The overall top priority is improving technology to facilitate enhanced staff working and team collaboration in the office (52% ranked this among their top three priorities). This indicates that councils are acknowledging the benefits of employee collaboration through the use of improved technology.

A focus on efficiency puts automating internal operational processes for enhanced service delivery as the overall second priority (46%) and the overall third priority is improving technology to enhance staff working remotely (42%). Online customer self–service is also deemed important by councils, with 41% ranking this as one of their top three IT priorities.

Key considerations:

- Has your council seriously considered the trade-offs to maintaining sub-standard systems versus investing in digital transformation?

- Have you considered the benefits and costs and the associated impact on both the council and the community?

- How are you prioritising this important area of focus and ensuring it remains central to all decision making across the council?

Figure 3.8: What are your top three IT priorities over the next three years?

Improving technology for staff working and collaborating in the office	17%	22%	13%
Automating operational processes for service delivery	15%	18%	13%
Improving technology for staff working and collaborating remotely	7%	16%	19%
Online customer self-service	10%	13%	18%
'Business as usual' technology maintenance to support existing services	27%	6%	3%
Automating operational processes for cost savings	6%	9%	12%
Cyber security implementation	10%	9%	7%
Data analytics and business intelligence	3%	5%	10%
Integrating amalgamating council IT systems	5%	1%	
Dashboarding to communicate business performance	2%	4%	

n = 136

1 2 3 Survey population priorities
1 2 3 Byron Shire Council

Managing your IT projects

Top IT priorities by council jurisdiction
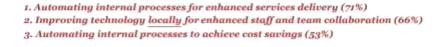
The below infographic shows the top three overall IT priorities by council jurisdiction. Councils can compare and contrast to better understand the importance placed on the selection of IT priorities, across the different jurisdictions.
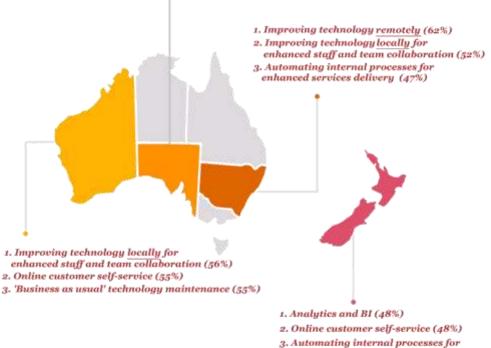
'Business as usual' technology maintenance remains in overall fifth place, however, more councils ranked this as their first priority (27%) than any other IT priority. Interestingly, this is especially apparent in WA councils; 42% ranked this as their first priority.

This highlights the ongoing challenge of councils maintaining aging systems to keep them operating reliably while also facing the pressure to deliver new-generation technologies. It suggests councils are challenged with how to take the next step forward; often legacy systems are customised so upgrading can be difficult and expensive.

Of particular interest, is the increased focus on data analytics and business intelligence (BI), with 18% of councils ranking this in their top three priorities, compared to only 9% a year ago.

This is a result of 48% of NZ councils ranking data analytics and BI in their top three priorities (up from 20% in the prior year). Currently, just 6% of WA, 8% of NSW, and 24% of SA councils are focusing on this important area.

With the growing availability of powerful technology tools, councils must keep up in terms of having the right people to be able to generate this information and create meaningful insights and initiatives for measurement and improvements.

Top IT priorities by council jurisdiction

1. Automating internal processes for enhanced services delivery (71%)
2. Improving technology locally for enhanced staff and team collaboration (66%)
3. Automating internal processes to achieve cost savings (53%)

1. Improving technology remotely (62%)
2. Improving technology locally for enhanced staff and team collaboration (52%)
3. Automating internal processes for enhanced services delivery (47%)

1. Improving technology locally for enhanced staff and team collaboration (56%)
2. Online customer self-service (55%)
3. 'Business as usual' technology maintenance (55%)

1. Analytics and BI (48%)
2. Online customer self-service (48%)
3. Automating internal processes for enhanced services delivery (40%)

Case study: Digital Innovation
Business Analytics

City of Joondalup, Western Australia

Over the years, the City had identified business analytics as the most effective way to objectively highlight potential links across the business. We recognised and identified an opportunity to improve the agility of the organisation to proactively manage service delivery as opposed to reactive management. Additionally, we wanted to start monitoring our project benefits and organisation efficiency within the City to ensure we are tracking well. We also needed a way to better manage staff availability according to the business demands.

Implementation

The City is now using data analysis and data reporting for programs such as Service Efficiency and Effectiveness Reviews. We partnered with Telstra to use smart technology to drive service delivery at a nominated park to identify when bins were nearing capacity. We have also used some data visualisation tools such as PowerBI to develop ongoing and real-time service delivery dashboards. These business analytics are now being used in areas such as internal audit, business performance, performance reviews, and operational service delivery. We have also used a lot of the measured metrics from the Performance Excellence Program to help guide areas of business analytics that we should be measuring over time.

Challenges

Our challenge to our users was to really have them get comfortable with the data and to develop data fluency within the organisation. It is key to standardise and agree on business rules and definitions and to understand the relationships between different systems and interpretations. Finally, we had to create and encourage a data-driven culture within our organisation.

Benefits

We have seen numerous improvements across the business as a result of the implementation of these initiatives. We have seen improved response times due to the availability of real time data for decision makers. To easily and quickly drill down and access the data dashboard on a range of devices at any time has facilitated this. In addition, we have improved financial forecasting of labour costs through the analytics. Business users who range from the City's CEO to managers are able to make better, more informed data based decisions on everyday questions. It has really helped in providing insight to the internal audit program to drive areas of review as well. All these in turn have translated to benefits felt by our community as the City can respond to the needs in a more timely and informed manner.

Customer service scorecard

Automating the customer experience

As organisations such as banks and retailers introduce more online and self–service options, customer service expectations are shifting for local government organisations as well. Customers are expecting more flexible, easily accessible and convenient interactions and experiences with their council. The customer service function is often the first interaction residents and businesses are exposed to, whether it be via the website, phone or face-to-face.

Embracing new technology can enable customer service enquiries to be dealt with more quickly, and at a time convenient to the resident or business. This can help to alleviate resourcing pressures and associated cost pressures often faced by customer service departments, and can also provide an enhanced service experience to many members of the community.

Automating the customer experience will benefit most, however, councils do need to consider accessibility requirements. After a new digital way of engaging is implemented, councils may still find they have to operate with the old way for a period of time (paper forms, in person counter service) to make sure that everyone can access their services.

Top online customer self–service areas

Online Payments (94%)

Library Services (85%)

Submit a Service Request (94%)

Online Payments (89%)

Operations

Customer service scorecard
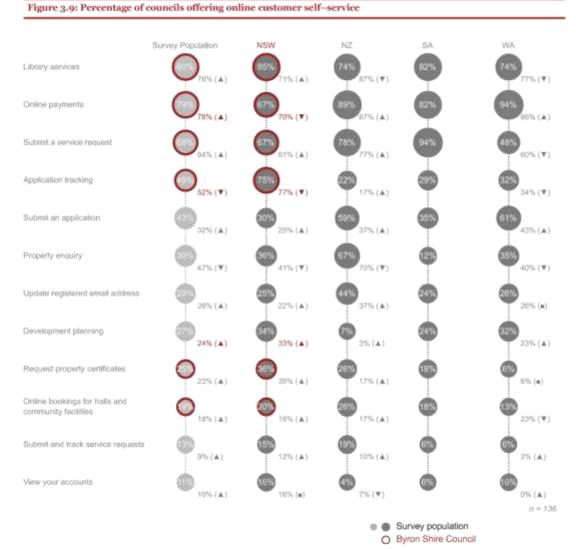
Automating the customer experience (continued)

While there are some differences in jurisdictions, the general trend is towards more and more online service delivery and access to customer self–service. Compared to the prior year, more councils are now offering online library services (80%, up from 76%), online payments (79%, up from 78%) and online submission of a service request (68%, up from 64%).

Given 85% of NSW and 82% of SA councils are offering online library services, this is a good opportunity for some NZ and WA councils to further explore how to move to a more digital

approach to borrowing and renewing library books; 26% of both NZ and WA councils do not offer this service.

Across the survey population, the largest shift comes from 43% of councils offering residents the ability to submit applications online, up from just 32% in the prior year. Online application tracking is prevalent amongst NSW councils (75%), compared to 22% of NZ, 29% of SA and 32% of WA councils. Interestingly, however, the ability to submit an application in NSW councils is low (30%), compared to 61% of WA and 59% of NZ councils.

An immediate opportunity exists in NSW councils to offer their customers the ability to make online payments, with just 67% of NSW councils offering this service, compared to 94% of WA, 89% of NZ and 82% of SA councils offering this huge time-saving service for residents and businesses.

Finally, SA councils have opportunities to explore online property enquiries (12%), compared to 67% of NZ councils and around 35% of both NSW and WA councils.

Figure 3.9: Percentage of councils offering online customer self–service

Customer service scorecard

Servicing the community

This year we observe a continuation of the downward trend in the median number of customer service full-time equivalent staff members (FTEs) per 10,000 residents across the council population. Overall, in FY17 we see a median of 2.3 customer service FTEs per 10,000 residents, compared to a median of 2.4 in FY16 (and 2.6 in FY15).
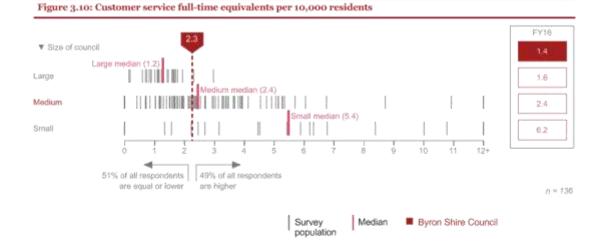
Geographically, it is interesting to note that both SA and WA councils have the lowest median customer service FTEs per 10,000 residents, with 1.7. This median result shifts to 2.4 in NSW councils (down from 2.7 in the prior year) and 2.5 in NZ councils (down from 3.0 last year).

In small councils, we see a relationship between a high median of 5.4 customer service FTEs per 10,000 residents and a lower uptake of online self-service offerings. That being said, we do continue to see a downward trend in small councils, with the median customer service FTEs per 10,000 residents falling from 7.6 in FY14 to 5.4 in FY17. However, in comparison to large councils, with a median of 1.2 customer service FTEs per 10,000 residents and medium-sized councils with a median of 2.4, the greater opportunities exist in small councils for further automation and online facilities.

Opportunities continue to exist in small councils for online application tracking (19%) and online payments (43%), compared to 50% and 83% of medium-sized councils offering online application tracking and online payments respectively.

Another area to explore is the sharing of services such as the customer service call centre, along with creating desirable self-service options for the community. Further in this section, we explore the proportion of councils outsourcing or sharing different corporate service areas, and our survey shows that only 14% of small councils operate an outsourced or shared customer service call centre, compared to 56% of large and 43% of medium–sized councils.

It is understood that access to reliable, fast internet is a critical success factor to making these shared arrangements work. However, as high-speed network access continues to improve in rural and remote areas, there will be more opportunities to bring different ways of serving the community. It is likely there are models where shared services can be possible both to enhance the customer experience and reduce costs.

Key considerations:

- Are you keeping up with customer expectations by providing access to information and certain services at anytime?

- Do you know where the pain points are in the corporate service functions that could benefit from automation streamlining?

- Have you comprehensively reviewed your corporate services processes via formalised service reviews?

- Are you exploring new ways to engage and interact with your customers via online self-service options?

- Are your staff encouraged to innovate and seek out new ways to enhance the customer service experience?

- Have you explored doing things differently either by sharing the customer service call centre with nearby councils or regionally?

- Do you understand your changing customer profile mix and how they would prefer to interact with your council in the future?

Figure 3.10: Customer service full-time equivalents per 10,000 residents

FY16
1.4
1.6
2.4
6.2

Survey population | Median | Byron Shire Council

Operations

Looking at different ways to deliver corporate services

Outsourcing or sharing corporate services

There are a variety of ways to deliver corporate services; outsourcing or sharing corporate services is one way to potentially optimise operational effectiveness. In building a sustainable operating model, any form of outsourcing or sharing should aim to support councils to achieve high quality service levels and build better resilience into the service, via increased efficiencies, delivery of better value directly to users and ultimately generate cost savings that can in turn be invested into other services, new initiatives and building of enhanced skill capability among staff members.

Our findings show that the top two corporate service areas that are either outsourced or shared remain consistent with last year, with legal (90% of councils) and IT hosting and support of systems (69%). In third place, a new corporate service area included in the FY17 survey, recruitment (44%), followed closely by customer service call centre and procurement (41% and 40% of councils respectively).

More councils are now opting to outsource or share IT hosting and support of systems, with 69% of councils employing this delivery model, compared to 62% last year. This increase is most prevalent in NSW councils (64%, up from 56% in the prior year) and NZ councils (89%, up from 70%).
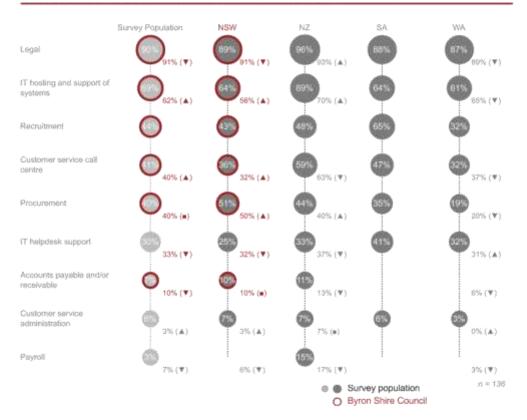
The outsourcing or sharing of the IT helpdesk is not as widespread, with just 30% of councils delivering support in this way. When it comes to size of council and future plans for outsourcing or sharing of the IT helpdesk, it is interesting to note that small councils have no plans to outsource or share this area in the next two years, compared to 19% of large and 8% of medium-sized councils.

With the expanding focus on IT capabilities and initiatives, councils should be cognisant of the growing demand for IT support and the specialist skills required. If existing staff do not have the skills to support the next generation of software and tools then this could create

bottlenecks and hold councils back from enhanced service delivery, if not addressed.

Key considerations:

- Have you critically evaluated your current model for delivering your transaction-based services?

- Have you explored the possibility of sharing services with nearby councils especially for a geographic specific activity?

- Are you getting the most from your current resources or could you vary the way services are delivered to create more time for value-adding activities from your existing staff capacity?

Figure 3.11: Percentage of councils outsourcing or sharing corporate service areas

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Looking at different ways to deliver corporate services

Outsourcing versus shared services

The key objective of sharing services is to provide enhanced service delivery and customer experience. The focus is to obtain economies of scale and centres of excellence by standardising, re-engineering and consolidating processes; thereby allowing councils to use information more effectively.

The option to outsource services is useful when the service is better able to be delivered by another party. This will mean providing a viable option enabling councils to access best in breed services. It can also allow councils to then focus on their core strengths. However, to be successful, councils need to identify and address cultural barriers that may impede the success of these strategies.
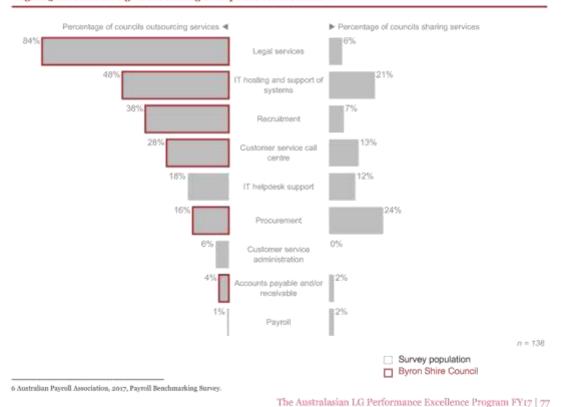
It is also crucial to establish a clear vision and formal service-level agreements between councils and service providers. Where feasible, councils should continue to consider the benefits of sharing resources in regional areas especially with the growing network of regional clusters; this creates a consistent regional approach on important matters for employees and/or residents.

Taking a closer look at the outsourced or shared corporate areas shows that legal services continues to be primarily outsourced with 84% of councils choosing this option, while 6% elect to share this service.

IT hosting and support of systems is 2.3 times as likely to be outsourced (48%), compared to 21% of councils sharing this service. On the flipside, we note that sharing procurement with other councils is more prevalent than outsourcing; 24% of council share procurement, while 16% outsource this service.

We acknowledge that councils differ in their approach to how they deliver corporate services, and there may be good reasons to keep service delivery in house. However, there are areas of operations that are more transactional in nature that may benefit from a collective delivery model across councils.

One example is payroll. According to the 2017 payroll benchmarking survey conducted by the Australian Payroll Association,[6] where over 2,000 Australian organisations were surveyed, the payroll function is outsourced in 21% of the surveyed organisations.

In comparison, our findings show that NSW, WA and SA councils do not outsource or share the payroll function. However, of the 27 NZ councils surveyed, three councils do share the payroll function and one council outsources. Due to the transactional nature of the payroll function, the potential for either sharing or outsourcing this service is applicable to all councils.

Figure 3.12: Outsourcing versus sharing of corporate service areas

Service area	Percentage of councils outsourcing services ◄	► Percentage of councils sharing services
Legal services	84%	6%
IT hosting and support of systems	48%	21%
Recruitment	38%	7%
Customer service call centre	28%	13%
IT helpdesk support	18%	12%
Procurement	16%	24%
Customer service administration	6%	0%
Accounts payable and/or receivable	4%	2%
Payroll	1%	2%

n = 136

☐ Survey population
☐ Byron Shire Council

6 Australian Payroll Association, 2017, Payroll Benchmarking Survey.

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Operations

Looking at different ways to deliver corporate services

The future of outsourcing or sharing corporate services

In our final analysis of outsourcing or sharing of corporate services, we compare the percentage of councils that currently outsource or share corporate services to those that have plans to adjust the way they deliver corporate services.

Across all councils we continue to see limited demand for altering the way corporate services are delivered.
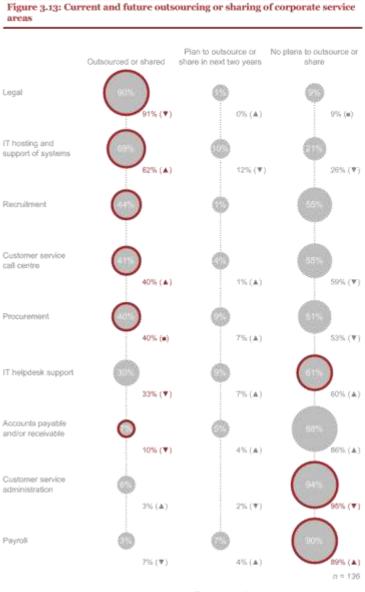
This is especially prevalent in areas like payroll and finance accounts payable/receivable, which actually have good track records for being delivered as an outsourced or a shared service function due to their transactional nature, with only 7% of councils in payroll and 5% in finance considering a move towards outsourcing or sharing in the next two years.

When looking at the future plans for the payroll function, we see some interest in altering the delivery model; 11% of NZ, 6% of both SA and WA, and 5% of NSW councils.

We continue to observe just over half of the surveyed NSW councils outsourcing or sharing the procurement function, compared to 44% of NZ, 35% of SA, and 19% of WA councils. SA councils show the most interest in altering the procurement delivery model, with 18% planning to outsource or share in the next two years, falling to just 3% of WA councils.
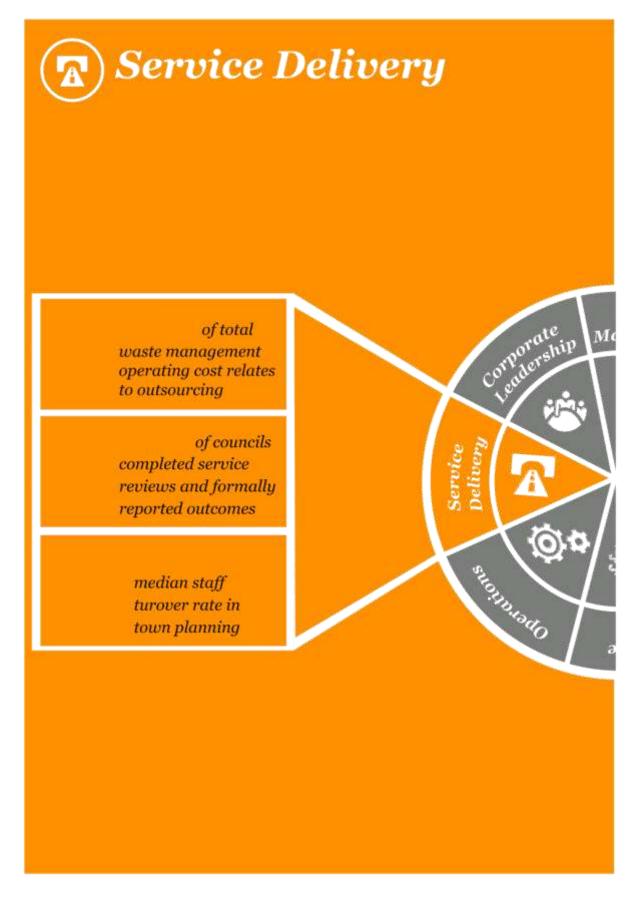
Overall, councils are more interested in the outsourcing or sharing of IT hosting (10% of all councils) and IT helpdesk support (9%) over the next two years. NZ councils (15%) are most interested in altering the delivery of the IT helpdesk, while NSW (10%) and SA (12%) councils are focused on IT hosting outsourcing or sharing. We see 16% of WA councils planning to outsource or share IT hosting and the same proportion planning to do the same with the IT helpdesk over the next two years.

The opportunity exists for more collaboration with nearby councils by investigating how corporate services may be shared with each other, or outsourced to service providers with specific expertise.

Figure 3.13: Current and future outsourcing or sharing of corporate service areas

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Case study: Digital Innovation
Living Labs

Wellington City Council, New Zealand

Wellington is New Zealand's foremost "smart city", deploying a wide range of technologies to help us achieve the strategic outcomes for our city. A key driver for developing this capability is growing our community resilience and ensuring we have successful street environments, now and into the future.

To achieve Wellington's strategic goals we set out with an aim to understand how the city, its people and organisations function and interact when it comes to achieving the high quality of life for which Wellington is known. This took the form of a series of workshops attended by over 100 people from different agencies, emergency services, health providers and communities to learn how we see the city, how we interact in solving problems, and where the common goals and operational interactions lay. Based on those meetings, we partnered with NEC (NZ's smart cities business) to help determine how Smart City Technology could help us measure, understand and/or collaborate to produce better services and solutions to problems.

Implementation

Wellington's Smart City is unusual in its very strong socially driven implementation lead by Jenny Rains, from Council's Community Services Business Unit. By partnering operational staff with technologists, Community Services have been able to digitise reporting from Council's Local Host teams (local hosts are city ambassadors assisting retailers and tourists, reporting damage to council assets and working with vulnerable people in the street). This reporting has been able to make the hosts more effective day to day and inform strategic decisions around liquor licensing, urban design and council policy. This view has been extended to bring in information from council's other points of contact with the public, including from our call centre, field workers and citizen reports. This view of the street has been augmented by the use of sensors and machine learning layers measuring patterns of behaviour such as begging, breaking glass, aggression and pedestrian flows.

Benefits

The data delivered by these systems has been used to provide greater insights into our street environments. This has assisted more effective event planning, social service delivery, liquor licensing processes and urban design responses. The unified view and common city platforms have also allowed agencies, such as the health board, police and other services to contribute data and gain common insights – this means that we can work together more effectively to deliver results and address situations earlier. This common information has also been able to be used with other Smart City projects such as pedestrian flows and the Virtual Reality Digital City Model to better engage on issues and generate deeper understanding.

Challenges

Wellington has pioneered the use of many of these technologies in city making in this part of the world, and this has meant taking an approach of developing a privacy by design methodology and exploring the closed, shared and open model of data in government. There have been further challenges with the speed that technologies develop and when to invest, many of which have been ameliorated by the use of open source software layers, a modular approach and our partnership approach.

Industry Snapshot

Top Services

Councils provided information about their operating expenses for the services they deliver. Below are the top six services by the average operating cost per resident.

		Number of councils*	Average operating expense per resident*	Range of operating expense per resident^
	Governance & Administration**	132 councils	A$292	A$138 - $700
	Roads & Bridges	125 councils	A$261	A$76 - $1130
	Water	62 councils	A$204	A$6 - $439
	Sewerage	63 councils	A$184	A$31 - $308
	Solid Waste Management	121 councils	A$127	A$56 - $238
	Other transport infrastructure	84 councils	A$97	A$1 - $209

* where service is provided
^ middle 80% of councils by operating expense per resident
** Governance & Administration operating expenses are a combination of Customer Service, Finance, Information Technology, Human Resources, energy transition and other governance and administration costs

NSW Top Services

	Number of councils*	Average operating expense per resident*	Range of operating expense per resident^
	58 councils	A$302	A$139 - $687
	36 councils	A$282	A$98 - $591
	58 councils	A$280	A$67 - $1177
	37 councils	A$245	A$87 - $343
	56 councils	A$184	A$70 - $257
	55 councils	A$72	A$26 - $173

Overview

Introduction

Each council delivers a range of services to meet the unique needs of its community. In a sense, each council is therefore unique, because no two councils deliver the exact same set of services, and each council serves a community comprising of different people with different needs. This fundamental feature of local government makes comparisons challenging for many important issues.

Rather than attempting to compare councils overall, this section of the report aims to look at councils from the viewpoint of the services that are being delivered, and the resources that go into delivering those services. Workforce costs remain a major controllable component of total council expenditure (median of 35% of total costs), and so the core of this analysis is to use workforce data as a key to unlocking insights about service delivery.

Councils are constantly balancing various tensions in the investments made in the workforce. Firstly, there is the tension between the need for resourcing in direct service delivery, and resourcing in the support of central administration functions. Secondly, there is the challenge of optimising the skilled support in management layers with the right number of resources in direct service delivery. And of course it is not necessarily only the current resourcing, but also the future resourcing needs of the council, that matter.

This section of the report provides you with information about how some of these challenges and tensions are being resolved by peer organisations. The allocation of resources within service areas, as well as overall, is one of the most important areas of management, given the competitive pressures on skills, capacity and increased community demands.

Understanding the relative size and shape of your various services, in terms of workforce and cost, is important, and this program enables our participating councils to see relevant comparisons of their service delivery profile, compared to other councils' profiles.

This section will benefit councils by providing a better understanding of:

- the profile and scope of services delivered by councils

- the way services are delivered (outsourced vs insourced) across councils;

- the associated costs in delivering these services; and

- the workforce make-up within various services delivered by your council.

We continue to learn from our participating councils and have made enhancements throughout this section. We can see that councils are improving their attribution of costs and resources across services, and we expect participating councils to further refine and improve their data submission accuracy during the next data collection round.

Methodology

Participating councils map their council cost centres to a defined set of 32 service areas. As each employee is allocated to one or more of the council's cost centres (via their FTE status), this enables each employee to be allocated to one or more of the defined service areas.

Using the list of mapped service areas, participating councils then compile the specified financial data. The participating councils allocate the FY17 cost to their mapped service areas across four sub-categories of expenses: outsourced contract cost (if any); insourced staff remuneration; depreciation expenses; and insourced other expenses.

Our practical approach is to focus on the linking of the direct workforce to each service, without allocating overhead costs to any service areas. As a result, there is a service area called 'Governance and Administration' that captures all overhead costs and resources ie. non direct workforce service costs. While 'Governance and Administration' is not technically a service area, the total cost of this area is a useful component for comparison purposes, so we have treated it as a standalone area.

Service Delivery

Overview

Understanding this section

Each participating council will have the ability to view a variety of metrics for their top five service areas (displayed in red) either ranked by service cost or service FTE (this is noted on each chart). In addition to the top five services, we profile the 'governance and administration' area.

We have adjusted for the different scope of services a council provides, which means participating councils will compare their metrics by service area to other councils that also provide those same services. The number of councils that provided data for each of the service areas is shown on each chart as well as at the end of this section.

To assist participating councils with more valuable comparisons to the overall industry, we show these councils what the survey population result would look like if it was the same size as their council. Therefore participating councils will now see relevant metrics for cost or FTE for their resident population, and the survey population result will be adjusted to reflect the total cost or FTE for your resident population.

When calculating FTE and headcount, we have used the closing balance at 30 June 2017 for fixed term and permanent staff. Given the seasonal nature of some casual employees in local government, we have analysed casual staff employed across the year and then included a casual FTE component based on casual hours worked throughout the year in the relevant service areas.

If councils did not provide service delivery cost or FTE data, they will see the results for the survey population's top five service areas plus 'governance and administration'. However, as no data was collected from this group of councils, the red indicator will be missing.

84 | PwC

Delivering council services - cost and resourcing

Service delivery operating costs and FTE breakdown

In Figure 4.1, we have shown your council's top five services, ranked by total service cost, as well as an additional category, called Governance and Administration. The remaining services are consolidated into 'Other'.

Based on the data submitted, you will see your total cost and total full time equivalent staff (FTE) during the 2016–17 financial year, across your featured service areas.

The survey population, by service area, is represented by other participating councils that also provide the same service.
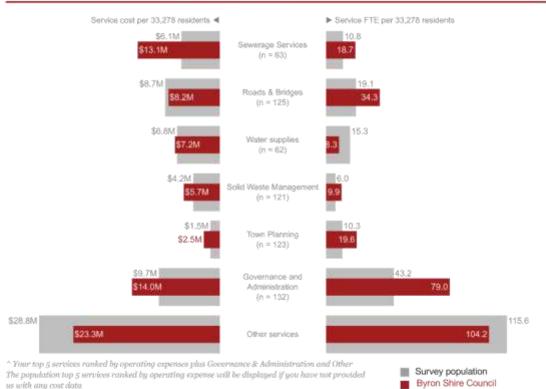
For example, a council may have 50,000 residents and spend $10.0m on solid waste management (equating to $200 per resident). The remodelled survey population result, using the total cost from the councils that also provide solid waste management, may result in an equivalent cost per resident of $220, which equates to $11m for all 50,000 residents.

This means the council in focus is spending less than the survey population to deliver this service to its 50,000 residents - the question then becomes how? Is it due to the way the service is delivered or the nature of the service provided? Is it due to a lower number of employed FTE? Is the mix of staff different? Have procurement agreements been negotiated recently for a better price and volume of materials? Some of these questions may be answered further in this section.

Definition

FTE: Total number of full time equivalent employees at 30 June 2017, including a casual FTE component based on casual hours worked throughout the years.

If your council did not provide the service delivery cost breakdown, we have shown the survey population's top five services, ranked by total service cost, as well as governance and administration. The remaining services are consolidated into 'Other'. These councils will still see these figures adjusted to their number of residents.

For easy comparisons, we have remodelled the survey population result to represent the same size as your council. This means you can observe and compare the average equivalent resources (cost and FTE) of the survey population for each service area, as if this survey population had the same number of residents as your council.

Figure 4.1: FY17 operating expenses (A$) and FTE by service^

Service cost per 33,278 residents ◄   ► Service FTE per 33,278 residents

	Service cost		FTE
Sewerage Services (n = 63)	$6.1M / $13.1M		10.8 / 18.7
Roads & Bridges (n = 125)	$8.7M / $8.2M		19.1 / 34.3
Water supplies (n = 62)	$6.8M / $7.2M		15.3 / 8.3
Solid Waste Management (n = 121)	$4.2M / $5.7M		6.0 / 9.9
Town Planning (n = 123)	$1.5M / $2.5M		10.3 / 19.6
Governance and Administration (n = 132)	$9.7M / $14.0M		43.2 / 79.0
Other services	$28.8M / $23.3M		115.6 / 104.2

Survey population
Byron Shire Council

^ Your top 5 services ranked by operating expenses plus Governance & Administration and Other
The population top 5 services ranked by operating expense will be displayed if you have not provided us with any cost data

Note: We have remodelled the survey population result to be the same size as your resident population.

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Service Delivery

Method of delivering council services

Insourcing and outsourcing

On this page, we have shown the extent of current insourcing and outsourcing by service area. We have calculated the total insourced expenses as a percentage of total service area operating expenses, and likewise for the outsourced contract value expense for each service area (if any).

We show each council their top five services (ranked by service operating expense) as well as governance and administration. Councils that did not provide service delivery cost breakdown will see the population's top five service areas (also ranked by service operating expense) across the survey population.

Our overall findings show that during the 2016–17 financial year, solid waste management is the top service area where a substantial component of this service uses an outsourced model: 47% of the

total solid waste management operating expenses is represented by outsourced contract expenses.

This is followed by emergency services, fire levy and protection, with 36% outsourced contract value and then in equal third place, other transport infrastructure and camping areas and caravan parks, with 34% of the total service area expenses dedicated to outsourcing.

Looking across the council jurisdictions, we observe a greater extent of outsourcing of services by NZ councils; outsourcing expenses comprise 29% of total operating expenses. In comparison, SA councils spend 17%, WA 15% and NSW councils spend 14% of operating expenses on outsourced delivery.

Outsourcing expenses as a percentage of total operating expenses

15%

29%

17%

14%

Figure 4.2: Council insourcing and outsourcing expense as a percentage of total operating expenses by service area^

	Byron Shire Council		Survey population	
	Insourcing expense %	Outsourcing expense %	Insourcing expense %	Outsourcing expense %
Sewerage Services (n = 63)	100%		89%	11%
Roads & Bridges (n = 125)	86%	14%	82%	18%
Water supplies (n = 62)	56%	44%	86%	14%
Solid Waste Management (n = 121)	56%	44%	53%	47%
Town Planning (n = 123)	100%		84%	16%
Governance and Administration (n = 132)	99%	1%	85%	15%

^ Your top 5 services ranked by operating expenses plus Governance & Administration

The population top 5 services ranked by operating expense will be displayed if you have not provided us with any cost data

• Insourced expenses are defined as "Insourced Total Remuneration" + "Depreciation" + "Insourced Other Expenses".

• Outsourced expenses are defined as "Outsourced Contract Value"

○ Survey population
● Byron Shire Council

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Are you conducting regular service reviews?

Service area reviews
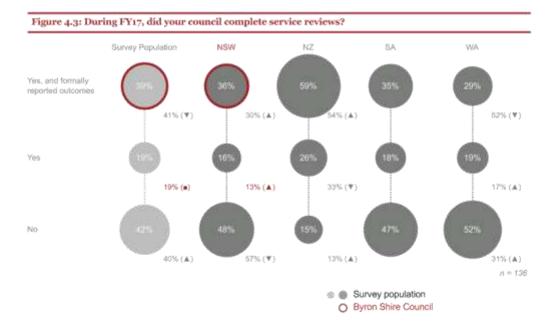
Service delivery reviews help councils clarify the needs of their communities, using an evidence-based approach to assess how efficiently and effectively the council is meeting those needs. Using this information, councils can determine any changes to make to service delivery in order to provide enhanced benefits to stakeholders within the constraints of financially sustainability.[1]

Our results show that 58% of councils conducted at least one service review in the 2016-2017 financial year, compared to 60% in the prior year. There were 39% of councils that then went on to report the outcomes of the service reviews to senior management.

Due to the NSW Government requiring service reviews to be completed for amalgamating councils in the 2016-2017 financial year, we see an uplift in the percentage of NSW councils conducting service reviews, with over half of the NSW councils (52%), compared to 43% in the prior year, prioritising these strategic reviews.

In contrast, there was a decline in the proportion of WA councils (48%, down from 69% in the prior year) performing at least one service review in the past year.

Meanwhile, we continue to observe a high proportion of NZ councils seeing this as an important element in business operations, with 85% of NZ councils performing at least one service review in the past year.

While there is no prior year data for SA councils, we see over half (53%) having performed service reviews and 35% that formally reported their outcomes in FY17.

Service delivery reviews are an ongoing process to ensure council is delivering what the community needs in the best possible way, especially with changing community needs and emerging external factors - such as the need to respond to climate change.[2]

Figure 4.3: During FY17, did your council complete service reviews?

1 Hunting, S.A., Ryan, R. & Robinson, T. P., 2014, Australian Centre of Excellence for Local Government, University of Technology, Sydney, 'Service delivery review: A how-to manual for local government', 2nd Edition

2 Ibid

Service Delivery

Which service areas are being reviewed?
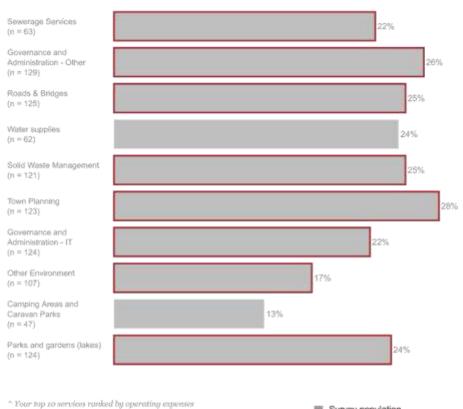
Service area reviews

In our survey, councils were asked to indicate whether a service review was performed across the council's range of service offerings.

In the chart below, we show each council their top 10 service areas using reported operating expenses as an indicator. We then highlight in red if your council indicated that at least one service review was performed in the 2015-2016 financial year, across your top 10 service areas, compared to other councils that provide the particular service.

Councils that did not provide operating expenses by service area will see the survey population's top 10 service areas and the percentage of councils that performed service reviews (adjusted to represent a percentage based on councils that provide the particular service).

Figure 4.4: Percentage of councils performing service reviews^

Service area	Percentage
Sewerage Services (n = 63)	22%
Governance and Administration - Other (n = 129)	26%
Roads & Bridges (n = 125)	25%
Water supplies (n = 62)	24%
Solid Waste Management (n = 121)	25%
Town Planning (n = 123)	28%
Governance and Administration - IT (n = 124)	22%
Other Environment (n = 107)	17%
Camping Areas and Caravan Parks (n = 47)	13%
Parks and gardens (lakes) (n = 124)	24%

^ Your top 10 services ranked by operating expenses
The population top 5 services ranked by operating expense will be displayed if you have not provided us with any cost data

■ Survey population
☐ Byron Shire Council

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Organisational design by service area

Span of control

In our workforce section of this report, we discuss the merits of structuring resourcing requirements with a focus on maintaining the optimal size of management. Across all council functions and activities, the overall median span of control for the survey population is 3.4 'other staff' per supervisor and above.

Looking at the three service areas with the highest proportion of overall FTE, we observe a narrow span of control in governance and administration, with a median of 2.8 other staff per supervisor and above, and in roads and bridges (3.0). Parks and gardens has a slightly higher span of control, with 3.8 which is likely to be driven by a workforce that is oriented towards frontline resources executing well defined duties.

It is important for councils to assess whether the current workforce structure in various service areas is ideal for their operations, and consider whether there are too many layers of management. The ideal span will be influenced by the nature of work involved. Important factors to consider are manager capability, the complexity of work in the various service areas, and whether the service area is outsourced (a lower span of control in the employed workforce is to be expected if delivery of the service has been outsourced).
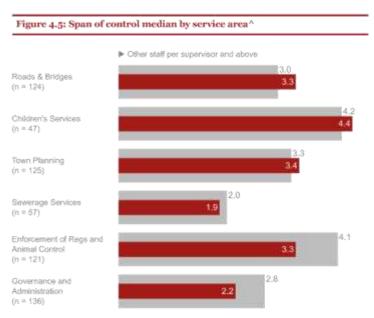
To further explain span of control and enable councils to better understand how their staff level mix compares to other councils, we have displayed your council's closing full time equivalent staff level (FTEs) by supervisor level and above and staff below supervisor (across your top five service areas, if you provided FTE mapping) as well as governance and administration.

Definition
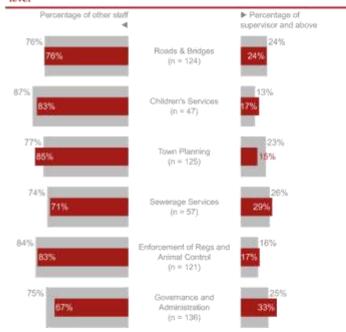
Span of control: Total number of employees (defined as other staff) per manager (defined as supervisors and above).

Councils with no span of control metric for a particular service may find this is due to an absence of staff above the supervisor level.

Survey population
Byron Shire Council

Figure 4.5: Span of control median by service area^

Figure 4.6: Closing full-time equivalents (FTEs) proportions by staff level^

^ Your top 5 services ranked by FTE plus Governance & Administration.
The population top 5 services ranked by FTE will be displayed if you have not provided us with any FTE data

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Service Delivery

Talent management

Gender diversity and staff turnover

Councils are now able to see the extent of gender balance within the various service areas. The extent of *gender–segregation* that remains in certain workforces reveals that many councils may have achieved overall gender balance within their workforce only as a result of the mix of services delivered, rather than because of any steps taken to dismantle traditional barriers to equity.

There are very low levels of female representation in traditionally male-dominated service areas, such as footpaths (7% females), street cleaning (7%), and roads and bridges (8%). Likewise, we observe female-dominated workforces in children services (95%), aged care (86%), and library services (83%).

The service area with a balanced gender ratio (when averaged across all councils that provided service area breakdown) is town planning. This is followed by camping areas and caravan parks, with 52% female representation.

In our workforce section, we have discussed the staff turnover rate in depth and have made note of the overall median turnover rate of 10.8% (excluding casuals fixed-term contract employees), across all service areas in the 2016–17 financial year.
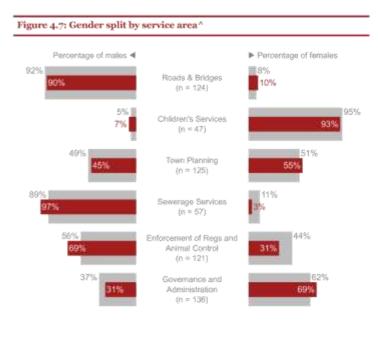
We can now provide councils with a better understanding of which service areas may be more prone to higher staff turnover levels, or alternatively service areas where the turnover rate is so low that it limits opportunities to promote key internal talent or hire employees with new or diverse skills.

Looking at the three service areas with the highest proportion of overall FTE, we observe minimal churn: a median staff turnover rate of 7.4% in governance and administration, 6.8% in parks and gardens, and 9.6% in roads and bridges.

Service areas that were more prone to staff turnover were agriculture (12.5% median staff turnover rate), town planning (12.4%), and children services (11.7%).

Definition

Staff turnover rate: Total number of leavers divided by the headcount at the start of the year (excluding casuals and fixed term contract employees).

Figure 4.7: Gender split by service area^
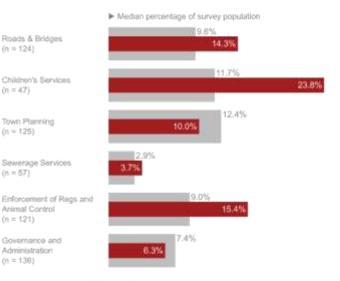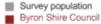
Figure 4.8: Staff turnover rate median by service area^

^ Your top 5 services ranked by FTE plus Governance & Administration
The population top 5 services ranked by FTE will be displayed if you have not provided us with any FTE data

■ Survey population
■ Byron Shire Council

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Talent management

Generational diversity

In our workforce section (refer to Figure 1.35), we have discussed the fact that baby boomers still dominate the workforce at councils, comprising 39% of the workforce, followed by 34% Generation X and 27% Generation Y and younger.

We are now able to analyse the generational mix at a service level. Figure 4.9 highlights the top service areas ranked by FTE and their associated generational headcount mix. This will allow councils to quickly identify service areas requiring a focus on succession planning.
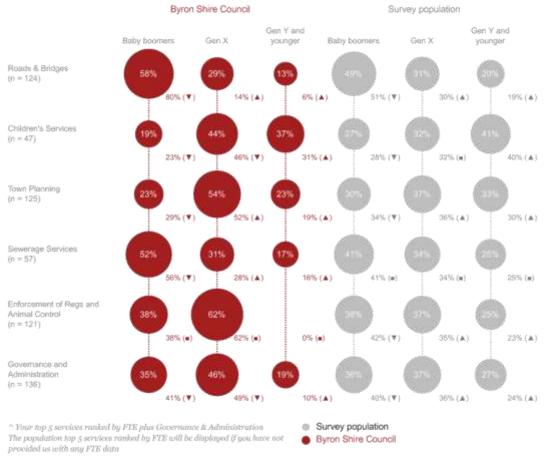
Our results show that the following four service areas (with a high proportion of overall FTE) face a high level of potential retirements in the next 10 years, given the dominance of the baby boomer cohort: roads and bridges (49%), libraries (48%), parks and gardens (41%), and governance and administration (36%).

It is crucial for councils to review their generational profiling within these service areas, with a focus on establishing a succession planning program to minimise the risk of losing vital talent, local government expertise and leadership skills.

In addition, councils can be investigating flexible working options that allow for smoother transition from work to retirement. Councils may find that some service areas will require a mix of resourcing strategies, with a need to 'grow their own talent', job share, or consider outsourcing or sharing resources with nearby councils to supplement in-house resourcing.

Other service areas, albeit with a lower proportion of overall FTE, that may face resourcing challenges over the years are aged care (54% of baby boomers), street cleaning (53%) and solid waste management (48%). At the other end of the spectrum, we observe the following service areas with a higher proportion of Gen Y employees being beach control (63% Gen Y), pools (51%) and children services (41%).

It is important for councils to analyse their own workforce generational mix and start planning now for the future and wellbeing of their employees. We encourage councils to engage with existing employees in this planning process, and to utilise their extensive knowledge of their service area, as they are likely to have good innovative ideas about how to ensure a smooth transition process.

Figure 4.9: Generational mix by service area^

^ Your top 5 services ranked by FTE plus Governance & Administration
The population top 5 services ranked by FTE will be displayed if you have not provided us with any FTE data

● Survey population
● Byron Shire Council

Service Delivery
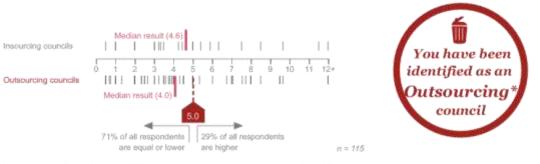
Solid waste management deep dive

Workforce analysis
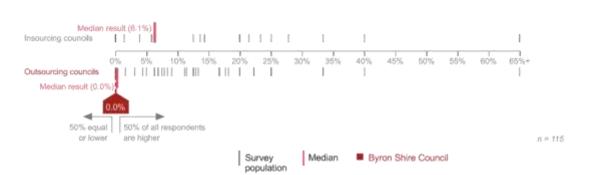
Councils can use this section of the report to further analyse and compare key workforce metrics across solid waste management (SWM).

We have classified councils as either 'outsourcing' or 'insourcing' SWM councils to assist with comparisons. If the council's SWM outsourced contract value was more than 25% of the total SWM cost then it was classified as an 'outsourcing' council. All other councils are classified as 'insourcing'.

Figure 4.10: Span of control ('other staff' per supervisor and above) - Solid waste management

Median result (4.6)
Insourcing councils

0 1 2 3 4 5 6 7 8 9 10 11 12+

Outsourcing councils
Median result (4.0)

5.0

71% of all respondents are equal or lower | 29% of all respondents are higher

n = 115

You have been identified as an Outsourcing* council
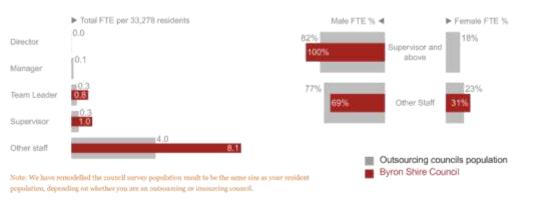
*Outsourcing councils are defined as the SWM outsourced contract value being more than 25% of the total SWM cost. All other councils are classified as insourcing. This will be " - " if you have not provided us with any cost data for this service.

Figure 4.11: Staff turnover rate - Solid waste management

Median result (6.1%)
Insourcing councils

0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50% 55% 60% 65%+

Outsourcing councils
Median result (0.0%)

0.0%

50% equal or lower | 50% of all respondents are higher

n = 115

| Survey population | Median | ■ Byron Shire Council |

Figure 4.12: Staff level FTE breakdown and Gender split - Solid waste management

▶ Total FTE per 33,278 residents   Male FTE % ◀   ▶ Female FTE %

Director	0.0	
Manager	0.1	
Team Leader	0.3 / 0.8	
Supervisor	0.3 / 1.0	
Other staff	4.0 / 8.1	

Supervisor and above: 82% / 100% Male; 18% Female
Other Staff: 77% / 69% Male; 23% / 31% Female

Outsourcing councils population
■ Byron Shire Council

Note: We have remodelled the council survey population result to be the same size as your resident population, depending on whether you are an outsourcing or insourcing council.

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Solid waste management deep dive

Waste allowance, volume collected and waste activity cost analysis
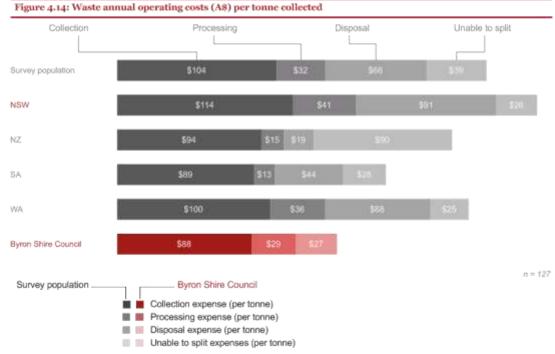
The cost of providing a council's solid waste service to citizens is a function of many factors.

These may be environmental factors, such as the nature and density of dwellings serviced, that are unique to your council, or the nature and scope of the service that is provided. Government landfill waste levies also impact cost considerably and these vary widely by jurisdiction.

Councils can use this section of the report to further analyse and compare key cost metrics across solid waste management.
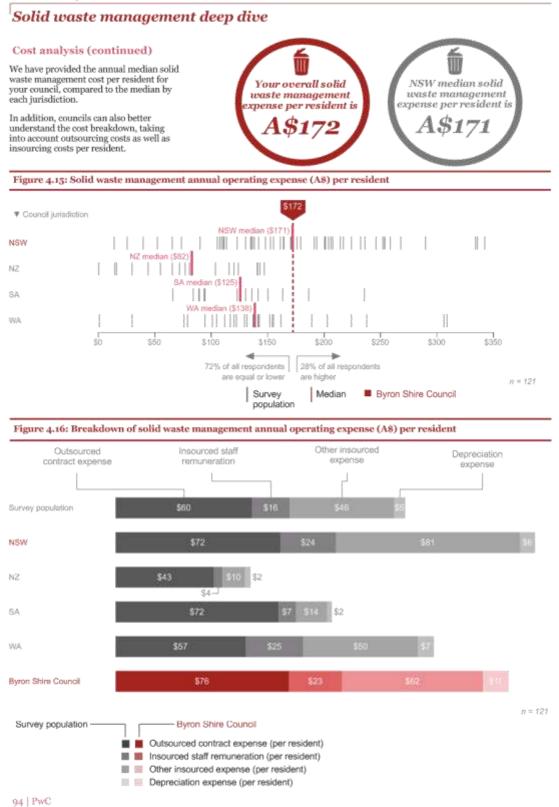
We have highlighted the following factors so councils can better understand how they contribute to the cost of providing solid waste management services to the community; household waste allowance and collection patterns, volume of actual waste collected in FY17 as well as the breakdown of cost by waste activity.

We observe higher waste costs in NSW councils, especially in processing and disposal costs per tonne collected. This may be a result of councils opting for further processing of residual waste (see our case study in this section) as well as the imposed government landfill levy.

We recommend councils to use the council comparative analysis tool (CCAT) to further explore the results.

Figure 4.13: Annual kerbside collection allowance and actual waste collected

Annual kerbside ◀ collection allowance per household (litres)

▶ Annual tonnes collected per 10,000 residents

	Survey population	Byron Shire Council		Byron Shire Council	Survey population
Residual waste	8,304	4,569		1,304	1,965
Dry recyclables	6,503	6,594		1,316	764
Organic/green waste	5,694	12,003		1,364	534

n = 136

Survey population
Byron Shire Council

Waste disposal or landfill levy per tonne collected ($)

A$39

A$9

A$38

A$80

Figure 4.14: Waste annual operating costs (A$) per tonne collected

	Collection	Processing	Disposal	Unable to split
Survey population	$104	$32	$66	$39
NSW	$114	$41	$91	$26
NZ	$94	$15	$19	$90
SA	$89	$13	$44	$28
WA	$100	$36	$68	$25
Byron Shire Council	$88	$29	$27	

n = 127

Survey population — Byron Shire Council

Collection expense (per tonne)
Processing expense (per tonne)
Disposal expense (per tonne)
Unable to split expenses (per tonne)

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Service Delivery

Solid waste management deep dive

Cost analysis (continued)

We have provided the annual median solid waste management cost per resident for your council, compared to the median by each jurisdiction.

In addition, councils can also better understand the cost breakdown, taking into account outsourcing costs as well as insourcing costs per resident.

Your overall solid waste management expense per resident is A$172

NSW median solid waste management expense per resident is A$171

Figure 4.15: Solid waste management annual operating expense (A$) per resident

▼ Council jurisdiction

$172

NSW — NSW median ($171)
NZ — NZ median ($82)
SA — SA median ($125)
WA — WA median ($138)

$0 $50 $100 $150 $200 $250 $300 $350

72% of all respondents are equal or lower | 28% of all respondents are higher

n = 121

Survey population | Median | ■ Byron Shire Council

Figure 4.16: Breakdown of solid waste management annual operating expense (A$) per resident

	Outsourced contract expense	Insourced staff remuneration	Other insourced expense	Depreciation expense
Survey population	$60	$16	$46	$8
NSW	$72	$24	$81	$6
NZ	$43	$4 / $10	$2	
SA	$72	$7	$14	$2
WA	$57	$25	$50	$7
Byron Shire Council	$76	$23	$62	$11

n = 121

Survey population —— Byron Shire Council

■ ■ Outsourced contract expense (per resident)
■ ■ Insourced staff remuneration (per resident)
■ ■ Other insourced expense (per resident)
■ ■ Depreciation expense (per resident)

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Case study: Alternate waste options
Sort, Divert and Save

Kempsey Shire Council, NSW

Our 10 year waste contract was coming to an end and it was our opportunity to renew our contracts and we started looking at ways we could reduce costs and reduce waste in our community. We conducted audits into the waste that was going into the red (residual waste) bins, and we found that a whopping 70% of waste in there could have been allocated to either the green (food and organic waste) bin or yellow (household recycling) bin.

In addition to this, using our analysis, we determined that we could reduce the cost of the waste levy that was being charged to the local community.

Our initiative

Since then, we reduced our red bin collections to a fortnightly pickup and introduced weekly green bins to all households to encourage residents to better manage their waste allocations. Residents are encouraged to better allocate their waste and we've provided kitchen caddies to residents to help them with their organic and food waste. Before the new contract, we had 75% of households with a 3 bin system. Now, we have standardised the bin groups and frequency throughout our region and we have removed over 24,000 bins and replaced them with over 36,000 new bins. The cost for these bin replacements were even covered from all our savings in the reduction in processing residual waste.

Benefits

The biggest benefit we have seen is the reduction of cost. Since the implementation in July 2017, we have already seen reduction of waste rates by 10 percent. We are already seeing a 20-25% reduction in red bin waste and a 10-15% increase in green bin waste. Because the cost of processing a green bin is four times less than the processing cost of a red bin, we are already seeing a decrease in overall processing costs.

In conclusion, these new innovative ways to reduce waste to landfill is becoming the norm, especially in our region and we can all help to better cultivate good recycling and waste habits to help limit the volume of food and other waste being disposed of in our landfills.

Clarence Valley Council, NSW

Waste management is a large cost in council operations and it was important for us to manage this efficiently. Back in July 2012, an opportunity came up for us in our waste contracts and we really wanted to move towards a more environmentally friendly waste practice to reduce waste to landfill. As a result of our waste audit of domestic bins, we found that about 30 percent of waste in our red bins is food waste.

Our initiative

We increased the recycling bin capacity to 360 litres up from 240 litres, reduced the residual waste pickup frequency to fortnightly pickups instead of weekly, and introduced weekly organic food and garden collections. Since then, we have seen over 60% diversion rate from landfill, up from approximately 40% in the past.

We also have developed the Clarence Valley Waste mobile app that is available for free for our residents. Residents can easily access the app to learn about the different waste category types, waste collection schedules, fees and charges and even set up reminders.

Benefits

Financially, our NSW waste landfill levy has reduced as a result of the reduction in landfill waste. We have used these levy cost savings as well as the reduced processing costs to build a composting tunnel facility as well as a materials recovery facility and still retain the same level of spending in this area. Diverting food waste from landfill to composting has been a more sustainable and environmentally friendly option.

Service Delivery

Roads and bridges deep dive

Workforce analysis

Councils can use this section of the report to further analyse and compare key workforce metrics across roads and bridges.

We have classified councils as either 'outsourcing' or 'insourcing' road/bridge councils to assist with comparisons. If the council's road/bridge outsourced

contract value was more than 25% of the total road/bridge cost then it was classified as 'outsourcing'. All other councils are classified as 'insourcing'.

Figure 4.17: Span of control ('other staff' per supervisor and above) - Roads and bridges

*Outsourcing councils are defined as the Road/Bridge outsourced contract value being more than 25% of the total Road/Bridge cost. All other councils are classified as insourcing. This will be " - " if you have not provided us with any cost data for this service.

Figure 4.18: Staff turnover rate - Roads and bridges
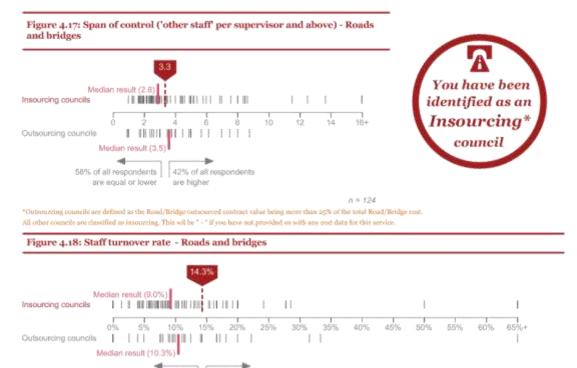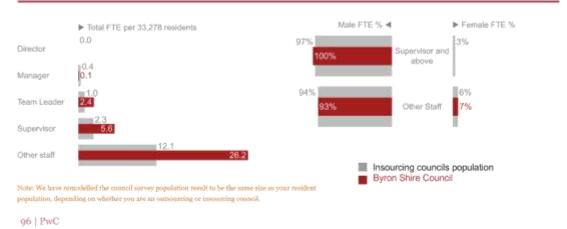
Figure 4.19: Staff level FTE breakdown and Gender split - Roads and bridges

Note: We have remodelled the council survey population result to be the same size as your resident population, depending on whether you are an outsourcing or insourcing council.

Service Delivery
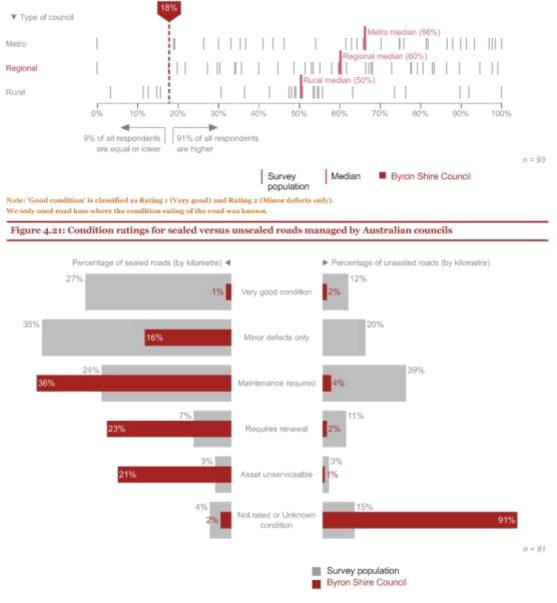
Roads and bridges deep dive

Condition ratings for the managed road network by Australian councils

Maintaining and enhancing a council's road network is most often the largest investment of resources made by a council. There are environmental, geographic, and traffic factors that drive unavoidable variation in the cost of maintaining the network.

We recognise that road networks of different types are serving different purposes and require different maintenance patterns.

To better understand the current state of the managed road network by Australian councils as well as the extent of sealed versus unsealed roads, we asked councils

to share the FY17 condition ratings for their road segments. There were five ratings to choose from, and we observe in metro councils a higher proportion of roads rated as either 'very good' or 'minor defects only' (median of 66%), compared to a median of 60% in regional and 50% in rural councils.

Figure 4.20: Percentage of total road km with 'good condition' ratings (Australian councils only)

Note: 'Good condition' is classified as Rating 1 (Very good) and Rating 2 (Minor defects only).
We only used road kms where the condition rating of the road was known.

Figure 4.21: Condition ratings for sealed versus unsealed roads managed by Australian councils

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Service Delivery

Roads and bridges deep dive

Councils can use this section of the report to further analyse and compare cost per kilometre across roads and bridges. We observe metro councils with a higher median cost per km due to the higher proportion of sealed roads that inevitably require additional maintenance due to traffic volumes.

In Figure 4.23 our findings highlight the relationship between cost and the extent of sealed roads in the council's road network. This relationship captures both the higher cost of the road construction method, as well as the cost of accommodating the higher traffic volumes that sealed roads generally carry.

Councils below the curved line have a higher than expected cost per km, given the mix of sealed and unsealed roads in the network.

Your roads and bridges expense per kilometre is **A$13.5k**

NSW median roads and bridges expense per kilometre is **A$11.8k**

Figure 4.22: Roads and bridges annual operating expense (A$) per kilometre
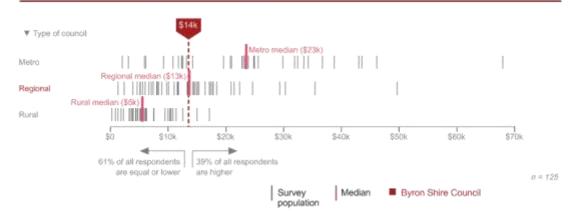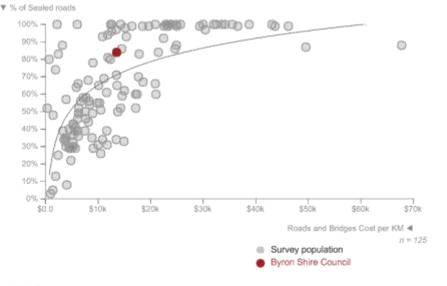
Figure 4.23: Relationship between percentage of sealed roads (by length) and road and bridges annual operating expense (A$) per kilometre

Service Delivery
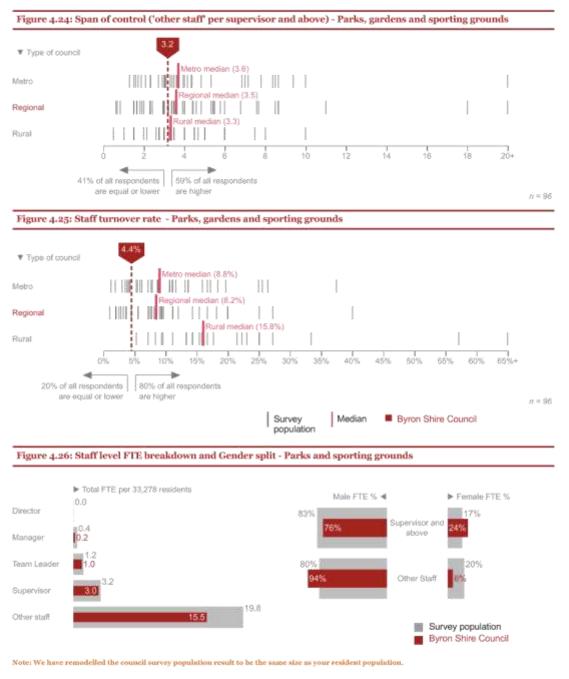
Parks, gardens and sporting grounds deep dive

Workforce analysis

In this section, we have merged the parks and garden data with the sporting grounds data to show results across this predominantly outdoor–based workforce.
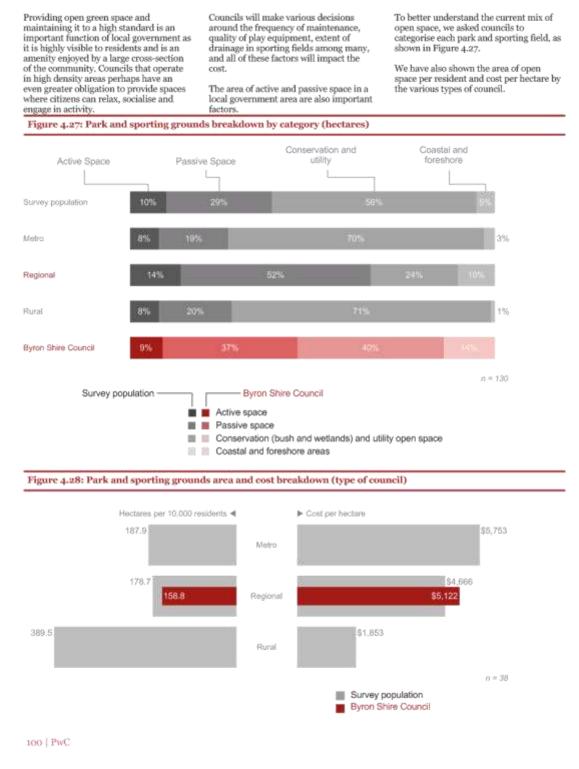
We see minor differences in the management layers by looking at the median span of control between the various types of council.

However, rural councils are almost twice as likely to have employees leave this service area, compared to regional and metro councils.

Figure 4.24: Span of control ('other staff' per supervisor and above) - Parks, gardens and sporting grounds

Figure 4.25: Staff turnover rate - Parks, gardens and sporting grounds

Figure 4.26: Staff level FTE breakdown and Gender split - Parks and sporting grounds

Note: We have remodelled the council survey population result to be the same size as your resident population.

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Service Delivery

Parks, gardens and sporting grounds deep dive

Categorisation and cost analysis of parks, gardens, and sporting grounds

Providing open green space and maintaining it to a high standard is an important function of local government as it is highly visible to residents and is an amenity enjoyed by a large cross-section of the community. Councils that operate in high density areas perhaps have an even greater obligation to provide spaces where citizens can relax, socialise and engage in activity.

Councils will make various decisions around the frequency of maintenance, quality of play equipment, extent of drainage in sporting fields among many, and all of these factors will impact the cost.

The area of active and passive space in a local government area are also important factors.

To better understand the current mix of open space, we asked councils to categorise each park and sporting field, as shown in Figure 4.27.

We have also shown the area of open space per resident and cost per hectare by the various types of council.

Figure 4.27: Park and sporting grounds breakdown by category (hectares)

Figure 4.28: Park and sporting grounds area and cost breakdown (type of council)

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BYRON SHIRE COUNCIL
AUDIT, RISK AND IMPROVEMENT COMMITTEE MEETING

Parks, gardens and sporting grounds deep dive

Cost analysis

Councils can use this section of the report to further analyse and compare key cost metrics across parks, gardens and sporting grounds.

We have provided the median expense per resident for your council, compared to the median in your jurisdiction and by type of council.

Councils can also better understand the cost breakdown, taking into account outsourcing costs as well as insourced costs.

Your parks and sporting grounds expense per resident is **A$81**

NSW median parks and sporting grounds expense per resident is **A$108**

Figure 4.29: Parks, gardens and sporting grounds annual operating expense (A$) per resident

Figure 4.30: Breakdown of parks, gardens and sporting grounds annual operating expense (A$) per resident

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Service Delivery

Breakdown of participating councils by service area

The table below shows the number of councils that provided cost and FTE data for each individual service area.

Service Area	Councils providing cost data	Councils providing FTE data
	n count	n count
Aerodromes	41	31
Aged Persons and Disabled	80	65
Agriculture	15	10
Beach Control	23	15
Camping Area and Caravan Parks	47	28
Children's Services	48	47
Cultural and Community Service Centres	108	105
Drainage and Stormwater Management	92	78
Emergency services, fire levy and protection	87	54
Enforcement of Regs and Animal Control	119	121
Footpaths	71	57
Fuel and Energy	6	6
Governance and Administration	132	136
Health	68	52
Mining, Manufacturing and Construction	64	62
Other community amenities	107	97
Other community services and education	96	95
Other economic affairs	106	102
Other environment	107	105
Other public order and safety	55	51
Other transport infrastructure	84	86
Parks and gardens (lakes)	124	126
Public libraries	120	122
Road and bridges	125	124
Sewerage services	63	57
Solid waste management	121	115
Sporting grounds and venues	98	86
Street cleaning	72	59
Street lighting	56	20
Swimming pools	93	72
Town Planning	123	125
Water supplies	62	61

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Risk Management

Risk Management Trend Summary
Byron Shire Council

● NSW Survey population ● Byron Shire Council	FY 14	FY 15	FY 16	FY 17	**Change from FY16 to FY17**
1. Risk management policy in place	In development 12% (In development)	In development 9% (In development)	In development 10% (In development)	In development 11% (In development)	
2. Frequency in reporting risks to council	As required 41% (As required)	As required 25% (As required)	As required 36% (As required)	Quarterly 26% (Quarterly)	
3. Use of key risk indicators to analyse and report risks			In development 29% (In development)	In development 23% (In development)	
4. Audit and Risk Committee in place	Yes 79% (Yes)	Yes 89% (Yes)	Yes 84% (Yes)	Yes 85% (Yes)	
5. Independent external members of the Audit Risk Committee	50% 50%	50% 50%	55% 50%	60% 50%	■ 0% ▲ 5%
6. Delivery of internal audit	Outsourced 39% (Outsourced)	Outsourced 42% (Outsourced)	Outsourced 48% (Outsourced)	Outsourced 44% (Outsourced)	

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Managing risk

Risk management policy

A good risk management policy creates integrity and transparency within a council by highlighting the key risk areas and the associated risk appetite. It promotes a risk–aware culture defining the processes for identifying, assessing and responding to risks.

Our findings show the upward trend in the proportion of councils with an approved risk management policy in place has continued; 90% of councils now have a policy in place, up from 85% in prior year.

The inclusion of SA in this year's survey contributed to the increase, with 100% of SA councils having an approved risk management policy.

It is also encouraging to see more WA and NZ councils establishing an approved risk management policy, compared to the prior year; 89% of NZ councils (up from 77%) and 94% of WA councils (up from 89%). NSW councils remain at 87%.

An approved risk management policy is more prevalent in both metro and regional councils, with 97% and 93% respectively. By comparison, 82% of rural councils have a risk management policy. This is an improvement on the prior year (74%) but there is still an opportunity to move forward in this area.

A risk management policy should clarify the council's objectives for, and commitment to risk management. It is an effective way to promote and communicate an integrated, holistic approach to enterprise risk management across the council.

Figure 5.1: Does your council have an approved risk management policy? (council jurisdiction)

Figure 5.2: Does your council have an approved risk management policy? (type of council)

Risk Management

Managing risk

Risk management policy (continued)

An organisational habit of reporting and monitoring risk regularly can contribute to a culture of sharing and managing risk issues.

The frequency of risk reporting in councils has increased, with almost half of the councils (47%) reporting risks at least quarterly, up from 38% in the prior year.

NSW councils have increased the level of frequency in reporting risks to councils, with 34% reporting at least quarterly (up from 26% in the prior year).

However, with NSW representing the largest proportion of councils not reporting risks at all (15%), there is still room to improve.

We acknowledge that the frequency of formal risk reporting can be dependent on the structure and effectiveness of other risk reporting processes. That being said, it is important that the full council be appropriately updated on the effectiveness of the risk management policy including any breaches, incidents or complaints that fall under the risk policy's remit.

Figure 5.3: How often does management formally report risks to council?

	Survey Population	NSW	NZ	SA	WA
Every council meeting	10% — 4% (▲)	5% — 0% (▲)	7% — 3% (▲)	6%	23% — 14% (▲)
Monthly	2% — 6% (▼)	3% — 3% (■)	4% — 10% (▼)		6% — 9% (▼)
Quarterly	33% — 28% (▲)	26% — 23% (▲)	48% — 41% (▲)	41%	33% — 26% (▲)
Every six months	7% — 7% (■)	7% — 7% (■)	7% — 13% (▼)	6%	6% — 3% (▲)
Annually	10% — 11% (▼)	10% — 13% (▼)	4% — 7% (▼)	18%	13% — 11% (▲)
As required	26% — 31% (▼)	32% — 36% (▼)	26% — 23% (▲)	29%	13% — 26% (▼)
Not reported	9% — 12% (▼)	15% — 17% (▼)	4% — 0% (▲)		6% — 11% (▼)
Unable to say	1% — 1% (■)	2% — 1% (▲)	3% (▼)		0% (■)

n = 136

⬤ Survey population
○ Byron Shire Council

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Managing risk

Key risk indicators

There has been an increase in the use of key risk indicators by councils, with 61% of councils now using key risk indicators to analyse and report risks (up from 53% in prior year). A further 21% of councils are developing key risk indicators to use in the future in order to critically predict unfavourable events that can adversely impact the achievement of objectives.

Our findings show all types of councils improving in their use of key risk indicators, with the gap closing between the proportion of metro versus both regional and rural councils using key risk indicators as a predictive measure.

We now see 58% of regional councils (up from 49% in the prior year) and 53% of rural councils (up from 42%) realising the benefit of using key risk indicators as a way to navigate their risk environment. In comparison, 76% of metro councils use key risk indicators, up from 71% in the prior year.

The inclusion of key risk indicators within the risk management policy ensures that risks are measured and monitored regularly. This allows councils to take proactive action, rather than reactive action, in the face of adverse events.

Key risk indicators are qualitative or quantitative measures designed to identify changes to existing risks. Risk indicators should not be confused with performance measures, which are typically retrospective in nature. They are used to predict a risk manifesting and are reported to the levels of the entity that are in the best position to manage the onset of a risk where necessary. They should be reported in tandem with key performance indicators to demonstrate the interrelationship between risk and performance.[1]

Figure 5.4: Does your council use key risk indicators to analyse and report risks?

1 COSO, June 2017, 'Enterprise Risk Management: Integrating with Strategy and Performance'.

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Risk Management

Corporate governance

Audit and Risk Committee
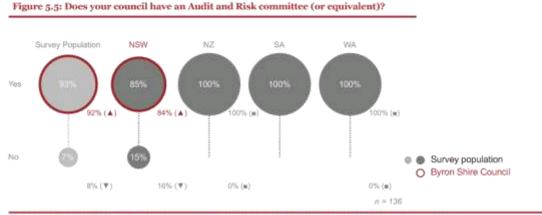
The Audit and Risk Committee is a sub-committee of council, and provides key links between management, council and the external auditor. This committee is a critical element for sound corporate governance and robust oversight of management's performance and reporting.

Consistent with prior year, all councils, aside from NSW, report extremely strong corporate governance, with 100% of councils in NZ, WA and SA having an established Audit and Risk Committee. In contrast, 85% of NSW councils have an Audit and Risk Committee in place (up from 84% in the prior year).
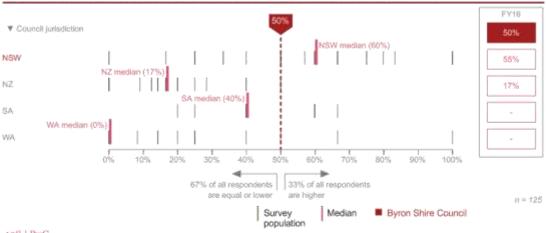
The key compositional attributes of a successful audit committee include independence, sufficient size and appropriate technical expertise. Independence of an audit committee, whether perceived or actual, is dependent on a reasonable balance of its members being external to, or independent from the council itself.

In NSW councils, there is an upward trend in the median number of Audit and Risk Committee members who are independent or external to the council, increasing from 50% in FY15, to 55% in FY16 and now at 60% in the current year. The NZ median has remained static for three years at 17%, and SA is in line with the population median at 40% independent or external members. Meanwhile, only 11 out of 31 WA councils have any form of independent or external representation on the Audit and Risk Committee, explaining the median result of 0%.

We encourage councils to review the composition of their Audit and Risk Committee and re-consider the need for additional independent representation. We also encourage the Audit and Risk Committees of each council to review their performance on an annual basis, if they are not already doing so, and commit to taking action as required to achieve excellence.

....

The Audit and Risk Committee is an essential and integral component of an organisation's corporate governance toolkit. Its responsibilities will generally cover, but are not limited to, the review and oversight of the following areas: internal control framework, compliance and ethical matters, risk management activities, financial statements, internal audit and external audit. The Audit and Risk Committee can also oversee and hold management accountable for its performance in managing these important areas.

....

Figure 5.5: Does your council have an Audit and Risk committee (or equivalent)?

Figure 5.6: Percentage of independent or external members of the Audit and Risk Committee

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Delivery of internal audit

Internal audit delivery and effort

An internal audit function with strong capabilities and effective leadership can progress a long way towards becoming a highly valued, trusted advisor to stakeholders. Yet even then, internal audit has to keep pace with the business, its ever-changing set of risks and the increasing number of external disruptors.[2]

When delivering internal audit many councils find that a sourcing model that includes external expertise provides them with the optimal range of skills, value for money, and independence. We observe 58% of councils preferring an outsourced or co-delivered approach, compared to 18% of councils that deliver internal audit in-house, and the remaining 24% opting out of maintaining an internal audit function at all.

This year we see a higher proportion of councils opting for co-delivery of internal audit (29%, up from 21% in the prior year). Co-delivery of internal audit balances knowledge of the organisation (internal), with access to a range of expertise, and independence to the council (external).

The percentage of rural councils undertaking no internal audit activity has increased to 43%, up from 31% in the prior year. In contrast, both metro and regional councils recorded a decrease to 8% and 20% of councils respectively, performing no internal audit during the year. There was a significant increase in metro councils choosing the co-delivery method for internal audit at 39%, up from 21% in the prior year.

Proportion of councils outsourcing or co-delivering internal audit

45% 53% 67% 52%

Figure 5.7: How is internal audit delivered?

	Survey Population	Metro	Regional	Rural
Outsourced	29% — 37% (▼)	21% — 26% (▼)	41% — 40% (▲)	20% — 40% (▼)
Co-delivered	29% — 21% (▲)	39% — 21% (▲)	26% — 24% (▲)	23% — 18% (▲)
Internally	18% — 20% (▼)	32% — 40% (▼)	13% — 14% (▼)	14% — 11% (▲)
No internal audit carried out	24% — 22% (▲)	8% — 13% (▼)	20% — 22% (▼)	43% — 31% (▲)

n = 136

● Survey population
○ Byron Shire Council

2 PwC, 2017, State of the Internal Audit Profession Study, 'Staying the course toward True North: Navigation disruption'.
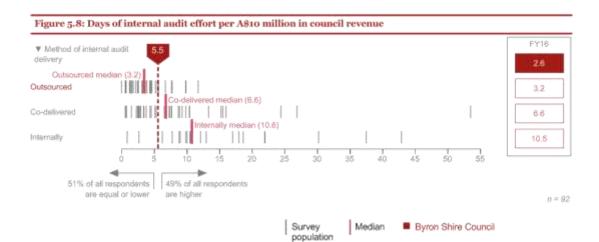
Risk Management

Delivery of internal audit

Internal audit delivery and effort (continued)

Similar to the prior year, we see a difference in the volume of days of internal audit work completed for internally delivered audits and the comparable effort of outsourced audits. Internally delivered internal audits take a median of 10.6 days per A$10 million in council revenue, compared to 3.2 days for outsourced internal audits.

Outsourced internal audits may reflect either lower levels of scope and investment, higher efficiency of work programs, or a combination of both, in comparison to internally delivered audits. Each council should consider the positives and negatives of all options to determine the best fit as well as clarifying the roles each party may play to be most effective.

While the different delivery methods affect a council's resources, both from a cost and time perspective, the effectiveness of the internal audit should be a key consideration in determining which delivery method option is most suitable.

Figure 5.8: Days of internal audit effort per A$10 million in council revenue

	FY16
	2.8
	3.2
	6.6
	10.6

▼ Method of internal audit delivery

Outsourced median (3.2)
Outsourced

Co-delivered median (6.6)
Co-delivered

Internally median (10.6)
Internally

5.5

51% of all respondents are equal or lower | 49% of all respondents are higher

n = 92

Survey population | Median | ■ Byron Shire Council

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Delivery of internal audit

Internal audit effectiveness
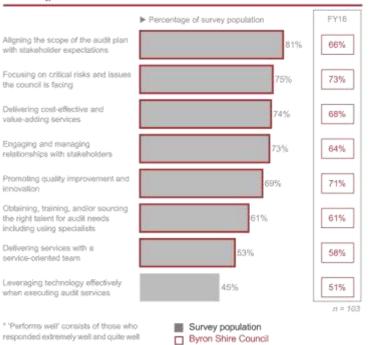
Both efficiency and effectiveness are vitally important to the value internal audit can provide the business. Councils were asked to rate how well their internal audit function performed across a range of areas.

In the majority of areas, the perceived effectiveness of the internal audit (IA) function has improved from prior years. 'Alignment of the audit plan scope' showed the most improvement, with 81% of all councils rating this area as performing well (up from 66% in the prior year). This area was particularly strong in SA councils, with 100% reporting IA as performing well or extremely well in this area.
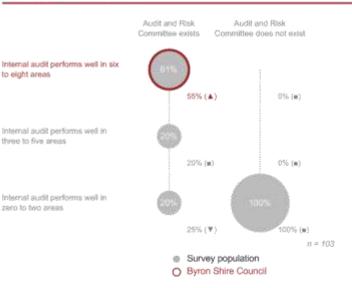
There are three areas that show a decline in the perceived effectiveness; 'Leveraging technology effectively' (45%, down from 51% in the prior year), 'Delivering services with a service-orientated team' (53%, down from 58% in the prior year), and 'Promoting quality improvement and innovation' (69%, down from 71% in the prior year). These three areas represent an opportunity for an increased focus as the IA function looks to play a more integral role in the business.

PwC's 2017 global internal audit study gathered insights from over 1,600 chief audit executives (CAEs), senior management and board members. The results found that only 44% of those surveyed believe internal audit is contributing significant value, reaching its lowest level in the five years this metric has been tracked.[3]

A key role of the Audit and Risk Committee is to support and liaise with the internal audit function, and it is increasingly clear that those councils with an Audit and Risk Committee perform better in more areas of internal audit than those where no committee exists. As Figure 5.9 shows, 61% of councils with an Audit and Risk Committee report that internal audit performs well (in six to eight areas of the internal audit). Councils without an Audit and Risk Committee, report a maximum of two areas where their internal audit function are performing well.

Figure 5.9: Does your internal audit function perform well* in the following areas?

▶ Percentage of survey population

		FY16
Aligning the scope of the audit plan with stakeholder expectations	81%	66%
Focusing on critical risks and issues the council is facing	75%	73%
Delivering cost-effective and value-adding services	74%	68%
Engaging and managing relationships with stakeholders	73%	64%
Promoting quality improvement and innovation	69%	71%
Obtaining, training, and/or sourcing the right talent for audit needs including using specialists	61%	61%
Delivering services with a service-oriented team	53%	58%
Leveraging technology effectively when executing audit services	45%	51%

n = 103

* 'Performs well' consists of those who responded extremely well and quite well

■ Survey population
□ Byron Shire Council

Figure 5.10: Correlation between having an Audit and Risk Committee and internal audit performance

Audit and Risk Committee exists / Audit and Risk Committee does not exist

Internal audit performs well in six to eight areas — 61% — 55% (▲) / 0% (■)

Internal audit performs well in three to five areas — 20% — 20% (■) / 0% (■)

Internal audit performs well in zero to two areas — 20% — 25% (▼) / 100% (■)

n = 103

● Survey population
○ Byron Shire Council

3 PwC, 2017, State of the Internal Audit Profession Study, 'Staying the course toward True North: Navigating disruption'.

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Corporate Leadership

Corporate Leadership Trend Summary
Byron Shire Council

NSW Survey population / Byron Shire Council	FY14	FY15	FY16	FY17	Change from FY16 to FY17
1. Median council meeting duration (minutes)	450 / 146	391 / 145	412 / 139	427 / 120	▲15 / ▼19
2. Median council resolutions passed	46 / 25	41 / 23	45 / 24	47 / 27	▲2 / ▲3
3. Frequency in review of the community engagement strategy		Monthly 1% (Monthly)	Monthly 2% (Monthly)	As required 12% (As required)	
4. Publishing corporate performance results to the community			Yes 86% (Yes)	Yes 85% (Yes)	
5. Community satisfaction survey conducted in the past 2 years			No 46% (No)	Yes 80% (Yes)	
6. Improved community satisfaction levels				Stayed the same 27% (Stayed the same)	

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Corporate Leadership

Approach to decision making

Council decision making

In order to gain a better understanding of the efficiency of council meetings, we collected data on each council's last six council meetings conducted in the 2016–2017 financial year. Our analysis on the relationship between meeting duration and resolutions passed has largely remained consistent with our FY16 results.

The median council resolutions passed has increased slightly, from 21 to 22 resolutions, and the median meeting duration decreased from 128 to 127 minutes, compared to the previous year.

Geographically, NZ councils continue to have longer meetings, spending a median of 183 minutes (3.1 hours), up from a median of 168 minutes (2.8 hours) in the prior year. The median resolutions passed (18) remains consistent with the prior year result. When looking at minutes per resolution, this means NZ councils took 10% longer to process a resolution, compared to the prior year. This could be driven by public comment, councillor discussion or complexity in the issue to be resolved.

Interestingly, it was a mixed result among the Australian councils. SA councils tend to have longer meetings, spending a median of 146 minutes (2.4 hours), and producing a median of 24 resolutions (6.0 minutes per resolution). In comparison, NSW councils spend a median of 120 minutes, (down from 139 minutes in the prior year), producing a median of 27 resolutions or 4.4 minutes per resolution (up from 24 resolutions in the prior year). This result would have been impacted by our participating NSW merging councils as administrators, and not councillors, acted as the governing body.
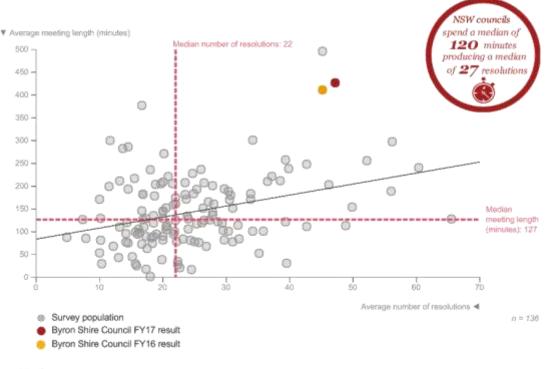
WA councils show an increase in both the meeting duration and resolutions passed: 105 minutes (1.9 hours), up from 82 minutes in the previous year, and 19 resolutions or 5.5 minutes per resolution (up from 18 resolutions in the previous year).

For councillors to make effective and informed decisions on policy settings, as well as council strategy, they require timely and succinct information prior to the meeting, clear agendas, and adequate time devoted to each element of the agenda to enable proper consideration of the issues.

It is critical that councillors can formulate a decision while understanding the broader picture and related consequences based on the information provided at the meetings.

Key considerations

- Do your council meetings regularly extend beyond three hours?

- Are your council meetings passing resolutions in an efficient manner?

- Are your meeting agendas and papers clear and concise, and consistently provided to councillors well in advance to allow a timely review prior to the meeting?

- Do you conduct council performance reviews at the end of the year or end of the council term?

Figure 6.1: Relationship between council meeting duration and resolutions passed in the second half of FY17

Median number of resolutions: 22

NSW councils spend a median of **120** minutes producing a median of **27** resolutions

Median meeting length (minutes): 127

▼ Average meeting length (minutes)

Average number of resolutions ◄

n = 136

- Survey population
- Byron Shire Council FY17 result
- Byron Shire Council FY16 result

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Corporate Leadership

Analysing council meetings and resolutions

Council meeting duration and number of resolutions

In the framework below, we have converted our survey data into a matrix to show possible reasons why council meetings may differ in duration and produce a different number of resolutions. This allows councils to explore the correlation between meeting length and the number of resolutions passed at their last six council meetings in the 2016–17 financial year.

Our results continue to show that almost 60% of the council meetings sit in the quadrants 'short and sharp' (30%) and 'clearance of straightforward matters' (28%). This suggests a greater proportion of council meetings were focused on decision making, with less discussion of individual items.

Geographically, 51% of WA council meetings were in the quadrant 'short and sharp', followed by 26% of NSW meetings, 20% of NZ meetings, and 21% of SA council meetings.
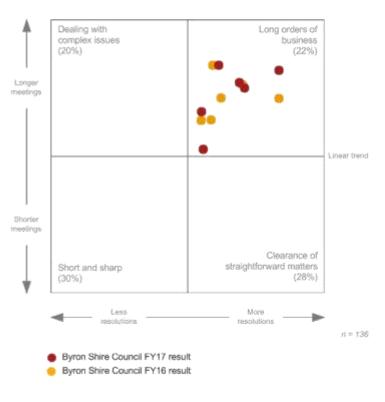
In contrast to 'short and sharp' meetings, we see that 47% of NZ council meetings were in the quadrant 'dealing with complex issues', indicating perhaps the different nature of issues being discussed at a local government level, compared to those discussed at council meetings of Australian councils.

When reviewing your profile in the chart below, consider that there may be a sound basis – such as the nature of business to be discussed – for whichever quadrant your meetings fell into. In fact, it might enhance a council's productivity if a range of the identified meeting types exists across the year. Each council should assess its results against the complexity and associated risk profile of the issues discussed in council meetings.

Key considerations

- Are you up to date with best practice when it comes to governance in your council meetings?

- Did the complexity of issues match the time taken to resolve them?

- Is your council meeting agenda well structured, clearly delineating sections for specific council purposes eg. information only versus strategic decisions?

- Are you conducting extra relevant meetings to support and inform your councillors so that the more formal council meetings are more productive eg. strategy or key operational issues?

- Do your councillors have access to technology that supports them to be more effective in their role as councillor eg. online meeting and papers access?

- Do you delineate your agenda into the different areas such as – strategic decisions, information only and housekeeping, so it is easy to manage and focus councillors?

Figure 6.2: Relationship between council meeting duration and resolutions passed in the second half of FY17

Legend:
- Byron Shire Council FY17 result
- Byron Shire Council FY16 result

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Corporate Leadership

Relationships with Government

Government relationships

In order to deliver value to its community, councils should aim to recognise their role and the role of the next level of government, in order to negotiate an effective working relationship.

In our survey, we explored the relationships between local councils and the State government (Australia), or National government (NZ). Specifically, we asked councils to describe their partnership with their respective governments when it comes to influencing important decisions that affect their region and/or community - decisions such as strategic transport plans, economic growth plans, and population planning for the region including new infrastructure.

We observe 57% of councils reporting that they have influence over some decisions, 35% are influencing most or all decisions and the remaining 8% have little or no influence on important decisions that affect their region and/or community.
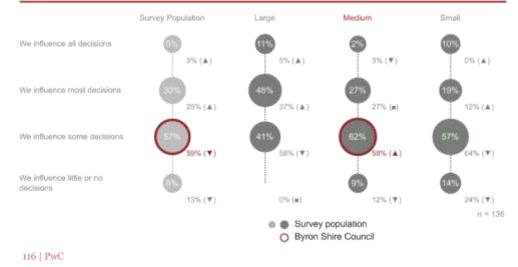
We see almost one in five SA councils (18%) reporting little or no influence, and in stark contrast just 2% of NSW councils reporting the same. When it comes to a strong level of influence, NZ and NSW councils lead the way, with 41% reporting influence on all or most important decisions, followed by 29% of SA and 22% of WA councils.

The size of council can also affect the relationship with State or National government, with large councils reporting a much stronger influence over decision making in their region; 59% have an influence over all or most important decisions (up from 42% in the prior year), compared to around 29% of medium (down from 30%) and small councils (up from 12%).

It is critical to have effective ongoing communication and collaboration between government bodies as they might impact the decisions made that affect council's region and community.

Figure 6.3: Describe your current relationship with State government (Australia) or National government (NZ) (council jurisdiction)

Figure 6.4: Describe your current relationship with State government (Australia) or National government (NZ) (size of council)

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Corporate Leadership

Maintaining high levels of staff engagement

Staff engagement

High levels of staff engagement are crucial for local government as this can help avoid regretted staff turnover, improve productivity, and create efficiency in delivery and outcomes.

It is encouraging to see that those councils that measure staff engagement levels are experiencing a boost in staff engagement; 36% reported an improvement, while 18% stayed the same.

Across WA councils a clear dichotomy has emerged: either staff engagement levels are measured, and councils have seen a remarkable improvement (55%, up from 37% in the prior year); or the council does not measure staff engagement at all (42%, up from 38%). The remaining 3% have observed no change in staff engagement levels.

Senior leaders should celebrate when staff engagement levels are measured as rising, and should also be prepared to measure this even when the findings may not be gratifying.

Interestingly, two thirds of NZ councils do measure staff engagement and there is an equal split across the results; 22% experienced an improvement, another 22% experienced no change, and the remaining 22% saw a decline in morale.
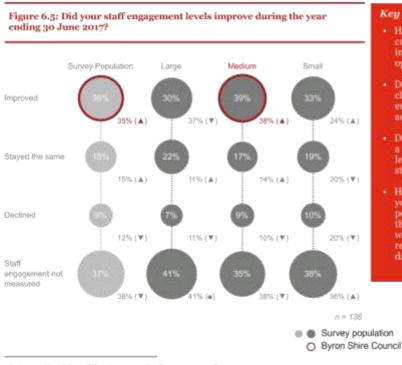
SA councils (58%) are less likely to measure staff engagement, and for the 42% that did measure, the highest proportion of councils (24%) reported no change, 12% saw an improvement and the remaining 6% experienced a decline. Meanwhile, similar levels of tracking are observed across NSW councils, 39% with improved morale and 23% with no change.

According to PwC's Fast take on talent innovation,[1] to engage your teams you can take these three steps:

Give your people a strong sense of purpose – build learning and development programs that help people excel as they work to achieve your mission;

Build a culture of engagement – encourage contribution from diverse perspectives where everyone listens and responds and offer workplace flexibility that motivates;

Devise a recognition system – reward performance with compensation and progression and also recognise large and small contributions in a regular, structured way.

Employee engagement is defined as one's commitment to and passion for his or her work and role within an organisation. Not to be confused with employee satisfaction—or general happiness—engagement is the extent to which employees are motivated to contribute to overall business success. It's a proven willingness to go the extra mile to achieve the organisation's business goals.[2]

Figure 6.5: Did your staff engagement levels improve during the year ending 30 June 2017?

Key considerations

- How would you describe your culture? Is it motivating, inclusive and are diverse opinions valued?

- Do you understand which clusters of employees are less engaged and taken action to address this?

- Do you make staff recognition a priority and encourage all levels of staff to share success stories?

- How are you communicating your goals, progress and performance? Do you know the best way to communicate with your staff – regular reports/comms, social media, dashboards, meetings?

n = 136

○ ● Survey population
○ Byron Shire Council

1 PwC, 2015, "Fast Take on Talent Innovation: Employee engagement"
2 Ibid

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Corporate Leadership

Consulting with the community

Community engagement strategy

A strong partnership between the council and the community can reap huge benefits. Members of the community often bring a different perspective and it creates a sense of ownership when the community is involved and collaborates with local government. Collaboration helps build trust and confidence with local government, and a key way to achieve this is to establish and implement a community engagement strategy.

Our survey results show that 73% of councils have a documented and approved community engagement strategy in place, with a further 17% currently developing their community engagement strategy. The fact that 97% of NSW councils either have a documented and approved community engagement strategy in place or are developing one, is explained by the mandatory requirement under the Integrated Planning and Reporting Framework.

Meanwhile, 93% of NZ councils (up from 90% in the prior year) and 87% of WA councils (up from 83%) have a documented and approved community strategy established or in development. SA councils have the most opportunity to bring their community engagement strategy to life, with 29% operating without a documented strategy.

Key considerations

- Is community engagement a central, developed capability within your council?

- Do you have the required level of skills to enable a cohesive approach, spanning across the full range of stakeholders?

- Have you invested in training and skills development for your staff involved in this key area?

- Do you engage with the community in a consistent manner on a wide range of matters – or does it vary depending on the issue?

- Have you truly embedded a culture of community engagement across the organisation rather than leaving the responsibility to a separate function in the council?

- Do you adequately resource such that community engagement can be performed right across the organisation so the views of your community can be properly considered?

Figure 6.6: Do you have a documented and approved community engagement strategy?

Corporate Leadership
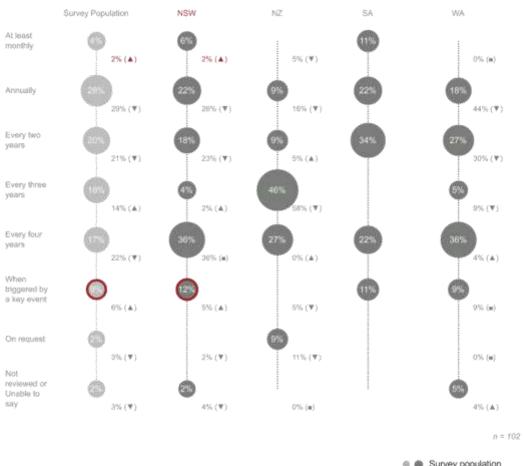
Consulting with the community

Review of the community engagement strategy

The continuous review of the community engagement strategy is as important as the strategy itself; there is a need to confirm that it continues to meet the evolving community's requirements.

Our survey continues to show the difference in frequency of review of the community strategy across the council jurisdictions.

We see the same proportion of NSW (36%) and WA councils (36%) being more likely to review their community strategy every 4 years, and 46% of NZ councils reviewing every 3 years, in line with the triennial long term plan (LTP) process. Within SA councils, they are more likely to review every 2 years (34%), compared to 22% reviewing annually.

Figure 6.7: How frequently do you review your community engagement strategy?

n = 102

● ● Survey population
○ Byron Shire Council

Consulting with the community
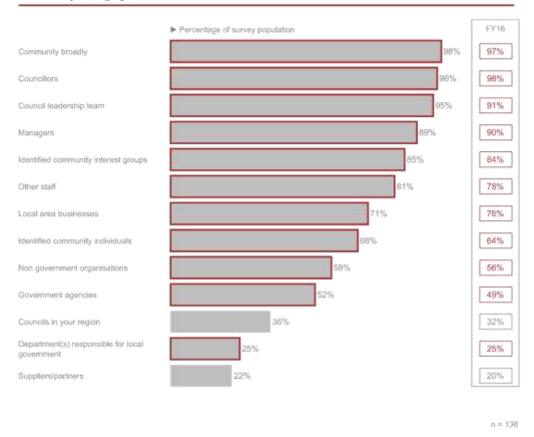
Community engagement

Effective local government needs a combination of representative and participatory democracy. Consulting with a broad range of stakeholder groups will lead councils to obtain a richer variety of inputs and issues to consider, and ultimately result in a more comprehensive strategy for the local community.

Similar to the prior year, it is encouraging to see that 36% (up from 32% in the prior year) of councils are engaging with their neighbouring councils when it comes to developing the community engagement strategy.

This trend is apparent across councils in all jurisdictions, especially in NZ where 67% of councils collaborate with their neighbouring councils (up from 53% in the prior year).

Councils should continue to work together and collaborate to obtain a wider variety of inputs. This is especially important when residents live and work across different local government areas and is a great opportunity to explore ideas that might work for your community.

Additionally, we continue to see around one quarter of the councils engaging with departments responsible for local government, and 52% of the councils are engaging with government agencies (up from 49% in the prior year) as part of the consultation process.

Figure 6.8: Which of the following groups were consulted when developing the most recent council community strategic plan?

Group	Percentage of survey population	FY16
Community broadly	98%	97%
Councillors	96%	98%
Council leadership team	95%	91%
Managers	89%	90%
Identified community interest groups	85%	84%
Other staff	81%	78%
Local area businesses	71%	76%
Identified community individuals	68%	64%
Non government organisations	58%	56%
Government agencies	52%	49%
Councils in your region	36%	32%
Department(s) responsible for local government	25%	25%
Suppliers/partners	22%	20%

n = 136

■ Survey population
☐ Byron Shire Council

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Corporate Leadership

Consulting with the community

Sharing corporate results

Sharing council's corporate performance results with the community is essential as it helps reassure community members as to how their rates and annual charges are being allocated, and also enables councils to communicate outcomes to the residents.
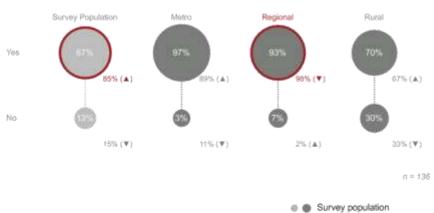
Similar to the prior year, this remains a strong area for local government, with 87% of the participating councils publishing the corporate performance results to the community.

We see 96% of NZ councils more likely to share the results with the community (up from 93% in the prior year), followed by NSW councils (85%, down from 86%), WA councils (84%, up from 77%) and SA councils (82%).

Metro councils are more likely to publish corporate performance results (97%), compared to regional councils (93%) and rural councils (70%).

Figure 6.9: In FY17, did your council publish corporate performance results to the community? (council jurisdiction)

n = 136

Figure 6.10: In FY17, did your council publish corporate performance results to the community? (type of council)

n = 136

Survey population
O Byron Shire Council

Corporate Leadership

Consulting with the community

Community satisfaction survey

Our survey results show a marked increase, with 76% of councils (up from 68% in the prior year) conducting a community satisfaction survey in the past 2 years. NZ and WA councils are more likely to have conducted a community satisfaction survey, with 85% and 84% doing so respectively, followed by 80% of NSW councils (a large increase from 54% in the prior year).

A lower proportion of SA councils (29%) conducted a community satisfaction survey in the past 2 years, however for those SA councils that measured community satisfaction, 60% reported improved satisfaction levels since the last survey.

Among the councils that carried out a community satisfaction survey in the past 2 years, our findings show a decline in the proportion of councils that reported improved satisfaction levels from the community; 48% of councils, down from 54% in the prior year.

WA councils, similar to SA, are more likely to report improved community satisfaction levels, with 61% observing signs of improvement.

Over half of our NZ councils reported improved community satisfaction and across NSW councils, the impact of the recent mergers may have played a role in the decline of community satisfaction,

with just 39% citing improved satisfaction, compared to 65% in the prior year.

Obtaining feedback from the community is vital, even if the level of satisfaction diminishes at different times. Residents appreciate having a voice and councils will build stronger engagement with the community if they can demonstrate action plans as a result of the survey outcomes, and continue to monitor and measure.

Figure 6.11: Did your council conduct a community satisfaction survey in the past two years?
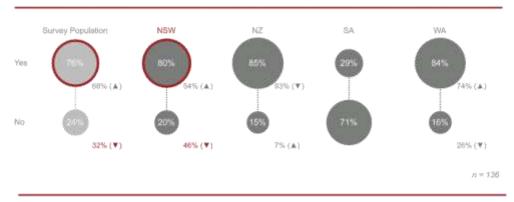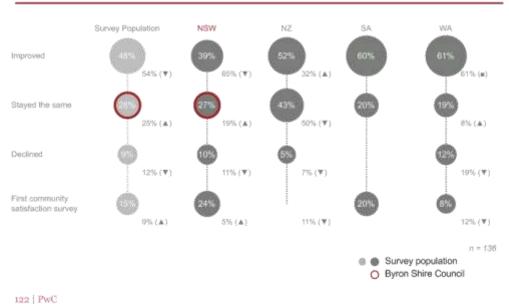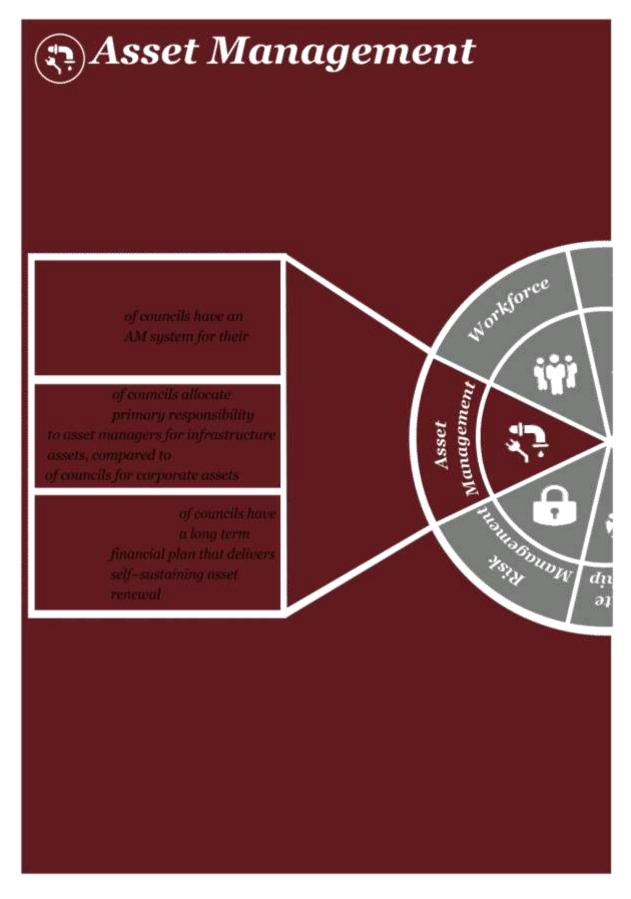
Figure 6.12: Did the overall community satisfaction levels improve since the last survey?

Asset Management

Asset Management Trend Summary
Byron Shire Council

	FY 16	FY 17
⊚ NSW Survey population 🔴 Byron Shire Council		
1. Dedicated asset management systems in road networks, bridges, footpaths and cycleways	Yes 74% (Yes)	Yes 75% (Yes)
2. Does your council have an asset management maturity rating model that it applies to its assets?	Yes 41% (Yes)	Yes 39% (Yes)
3. Frequency in reporting management of assets to council	As required 41% (As required)	As required 39% (As required)
4. Strategic asset management plan linked to long term financial plan	In development 45% (In development)	In development 43% (In development)
5. Primary responsibility for service assets	Asset managers 72% (Asset managers)	Asset managers 74% (Asset managers)
6. Primary responsibility for corporate assets	Asset managers 35% (Asset managers)	Asset managers 33% (Asset managers)

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Asset management systems

Data storage

Insights drawn from comprehensive and robust data systems are essential to effectively manage an asset's maintenance and renewal requirements, and future investment needs. It is understandable that the main areas of focus for asset management systems are the categories with the highest value assets: *Road networks*, *Drainage networks* and *Sewerage and waste treatment*.

Road networks remains the main focus, with 85% of councils confirming an asset management system exists, and a further 12% confirm systems are in development. *Drainage networks* and *Sewerage and waste treatment* make it to the top three asset categories with an asset management system, with 74% of councils confirming an asset management system exists for *Drainage networks* and 73% for *Sewerage and waste treatment*.

Some NSW councils are lagging behind in the storage of *Road network* data in an asset management system; just 76% have a system in place, compared to WA (91%) and SA (88%) councils. NZ's regulatory framework has driven 100% of councils to respond by implementing an established asset management system in this category.

NZ councils are leading the way with advanced infrastructure asset management across the three top asset categories. This can be explained by the legislative compliance requirements for local government in New Zealand to perform asset management planning. Section 101B of the Local Government Amendment Act 2014 requires councils to include in their Long Term Plan, information that shows that the council's strategic assets are managed in a manner that is efficient, effective, and appropriate to present and anticipated future circumstances.

On the other hand, Australian councils are far more likely to have a dedicated asset management system for *Buildings*, with SA (70%), NSW (69%) and WA (61%) councils doing so, compared to 40% of NZ councils. This trend is also observed for *Plant and Equipment* asset management systems.

When comparing Australian councils amongst themselves, on these main categories, our data shows that SA councils lead, with 88% of councils reporting to have an asset management system for *Road networks* and *Drainage networks*, and 75% for *Sewerage and waste treatment*.

Our results show that councils target the tracking of the major asset categories, however when it comes to *ICT*, 27% of councils continue to operate without a dedicated asset management system.

Although *ICT* assets have a low asset value compared to hard infrastructure, this may be a missed opportunity for councils, especially as *ICT* assets are strategically important and tend to be more portable and adaptable. *ICT* helps organisations record, process and retrieve data that can ultimately help to improve processes, increase productivity and reduce costs.
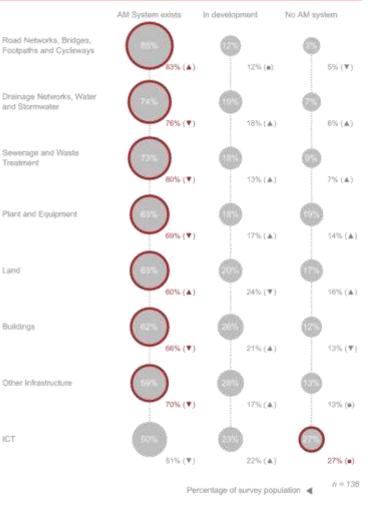
A good understanding of the current state in *ICT* is essential when planning for digital transformation. Benefits such as optimising the use of each IT asset, disposing of IT assets when the cost of maintaining them exceeds their benefit, and providing information necessary for regulatory compliance, license and contract renewals will come from having a dedicated asset management system for this category.

Figure 7.1: Percentage of councils with data stored in a dedicated asset management system by asset class

Asset Management

Asset ratings

Condition ratings

Our findings show that 99% of councils use condition ratings for some or all of their asset classes.
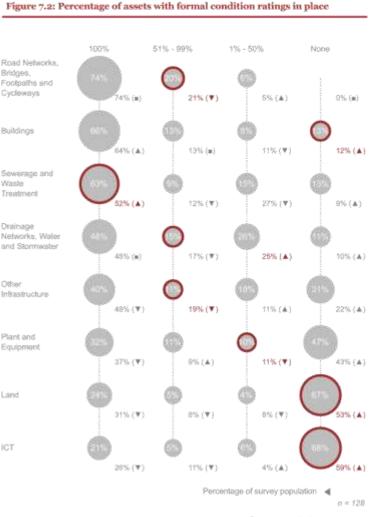
When analysing the specific asset categories, taking into account councils that have obligations to manage the various asset categories, we find that the assets with a dedicated asset management system are more likely to have formal condition ratings in place.

Looking into these main categories, we found that there are 74% of councils that use formal condition ratings for all of their *Road networks*, followed by 66% of councils formally rating all of their *Buildings*, 63% of councils formally rating all of their *Sewerage and waste treatment* assets, and 48% of councils covering their *Drainage networks*.

In the top category of *Road networks, bridges, footpaths and cycleways*, where more councils use conditions ratings, we observe 100% of SA councils and 93% or more NSW and WA councils with half or more of this asset class being formally rated, compared to a lower level of 82% of NZ councils. This is possibly due to the methodology adopted by NZ councils for point testing their roads.

The difference is more pronounced in *Buildings*, where just 43% of NZ councils use condition ratings on half or more of the assets in this category, compared to 94% of WA, 85% of NSW and 81% of SA councils. This trend also exists in *Drainage networks*, where 40% of NZ councils use condition ratings on half or more of the assets in this category, compared to 59% of SA, 77% of NSW and 55% of WA councils.

When assessing impact of council size in this analysis, we found that small councils are more likely to rate a higher percentage of their assets in two of the main categories, than large councils. Across *Drainage networks*, 90% of small councils use condition ratings on more than half of the assets in this category, compared to just 24% of large councils; and in *Sewerage and waste treatment*, where again 88% of small councils rate more than half of the assets, compared to 67% of large councils.

Figure 7.2: Percentage of assets with formal condition ratings in place

	100%	51% - 99%	1% - 50%	None
Road Networks, Bridges, Footpaths and Cycleways	74% / 74% (■)	20% / 21% (▼)	6% / 5% (▲)	/ 0% (■)
Buildings	66% / 64% (▲)	13% / 13% (■)	8% / 11% (▼)	3% / 12% (▲)
Sewerage and Waste Treatment	63% / 52% (▲)	9% / 12% (▼)	15% / 27% (▼)	13% / 9% (▲)
Drainage Networks, Water and Stormwater	48% / 48% (■)	15% / 17% (▼)	26% / 25% (▲)	11% / 10% (▲)
Other Infrastructure	40% / 48% (▼)	19% / 19% (▼)	10% / 11% (▲)	31% / 22% (▲)
Plant and Equipment	32% / 37% (▼)	11% / 9% (▲)	10% / 11% (▼)	47% / 43% (▲)
Land	24% / 31% (▼)	5% / 8% (▼)	4% / 8% (▼)	67% / 53% (▲)
ICT	21% / 26% (▼)	5% / 11% (▼)	6% / 4% (▲)	88% / 59% (▲)

Percentage of survey population ◄

n = 128

● Survey population
○ Byron Shire Council

Asset ratings

Maturity rating model

An asset management maturity rating model assists with optimising decisions when it comes to the type of treatments required to effectively manage assets. The model allows for an asset to be rated based on its performance and service potential, rather than simply looking at the age of the asset.

As part of the approach to effective asset management, we are observing 40% of councils using a maturity rating model, with an encouraging further 40% of councils in the process of developing one.

Given WA councils are now in their second year of this program, it is encouraging to see a large shift in the proportion of WA councils developing a maturity rating model, with 46% doing so, up from 29% in the prior year.

NZ councils are more likely to already be using a maturity rating model, with 52% already assessing their assets in this way, up from 46% in the prior year.

SA councils have the most opportunity to implement further rigour in the assessment of their assets, with only 35% using a maturity rating model and 36% developing one.

Figure 7.3: Does your council have an asset management maturity rating model that it applies to its assets?

	Survey Population	NSW	NZ	SA	WA
Yes	40%	39%	52%	35%	35%
	42% (▼)	41% (▼)	46% (▲)		40% (▼)
In development	40%	41%	33%	36%	46%
	38% (▲)	43% (▼)	37% (▼)		29% (▲)
No	20%	20%	15%	29%	19%
	20% (■)	16% (▲)	17% (▼)		31% (▼)

Survey population
○ Byron Shire Council

n = 136

Asset Management

Strategic asset management

Reporting to council

A visible and well–communicated strategic asset management plan creates a focus on the priority areas of investment for the council, both now and into the future, thereby informing council and residents on the future direction of spend on asset renewal and growth.

Our findings highlight a more pronounced gap in SA and WA councils, with 12% and 10% of councils respectively, operating without a strategic asset management plan, when compared to NSW (5%) and NZ (4%) councils.

In regards to the reactive nature of reporting to council on the management of assets in accordance with the strategic asset management plan, we see a trend in the right direction.

The proportion of councils reporting 'as required' has decreased to 38%, compared to 41% in the prior year. In addition, there was a further decrease in the proportion of councils that do not report at all, decreasing from 12% to 10% of councils.

It is also encouraging to see an upward trend in proactive reporting, with 10% of councils now reporting at least quarterly on the management of their assets, compared to 7% in the prior year.

NZ councils continue to apply more rigour in their approach to reporting on the state of their assets to council, with 26% reporting at least quarterly, compared to 12% of SA, 9% of NSW councils, and no WA councils. The minimum frequency of reporting in WA councils is twice a year, with 10% doing so, followed by 32% reporting annually.

Figure 7.4: How frequently is the management of your assets formally reported to council in accordance with your strategic AM plan?

	Survey Population	NSW	NZ	SA	WA
Every council meeting	1%	1%	3%		0%
Monthly	2%	2%	7%		0%
	2% (■)	1% (▲)	7% (■)		0% (■)
Quarterly	8%	7%	19%	12%	0%
	5% (▲)	6% (▲)	10% (▲)		0% (■)
Biannually	3%	2%			10%
	1% (▲)	3% (▼)	0% (■)		0% (▲)
Annually	32%	38%	26%	18%	32%
	34% (▼)	36% (▲)	23% (▲)		40% (▼)
As required	38%	39%	33%	46%	35%
	41% (▼)	42% (▼)	44% (▼)		34% (▲)
Not reported	10%	7%	11%	12%	13%
	12% (▼)	10% (▼)	10% (▲)		17% (▼)
We do not have a strategic asset management plan	7%	5%	4%	12%	10%
	4% (▲)	1% (▲)	3% (▲)		9% (▲)

n = 136

● ● Survey population
○ Byron Shire Council

Strategic asset management

Link to financial plan

NZ councils remain focused on attempting to fulfil the objective of financially linking the strategic asset management plan to the long term financial plan.

Due to changes to the NZ legislation in 2014, this position is being strengthened because NZ councils triennially have to develop overarching 30 year infrastructure and financial strategies. The second iteration of this requirement is currently being developed for adoption by councils in 2018.

As such in FY17, we observe 89% of NZ councils currently applying this approach, with a further 11% in development.

In Australia, SA councils are ahead of the other states in this area, with 76% of councils having a strategic asset management plan financially linked to the long term financial plan. In comparison, just 55% of NSW and 52% of WA councils apply this approach.

Figure 7.5: Do you have a strategic asset management plan that financially links to the long term financial plan?

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Asset Management

Financial asset planning

Self-sustaining asset renewal
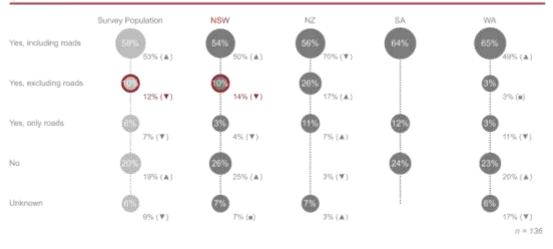
We have assessed the extent to which a council's long term financial plan aims to generate sufficient operational revenue to maintain its assets. The term self-sustaining relates to the extent that each council can fund its own activities without the assistance of outside grants.

Our findings show that 58% of councils now have an approved long term financial plan that delivers self-sustaining council asset renewal (including roads), compared to 53% in the prior year.

Given the extensive road network that rural councils must maintain and the higher reliance on grants as a source of revenue, it is interesting to note the closing gap between rural and metro councils in self-sustaining asset renewal. We now see 60% of rural councils (up from 47% in the prior year), compared to 64% of metro councils, being in a position to provide long term self-sustaining asset renewal.

Geographically, 65% of WA councils report self-sustaining asset renewal (up from 49%, in the prior year). We now see 56% of NZ councils with a financial plan that aims to generate sufficient operating revenue to cover asset renewal (including roads), compared to 70% in the prior year. Meanwhile, just 54% of NSW (up from 50% in the prior year) and 64% of SA councils claim self-sustaining asset renewal.

Figure 7.6: Does your approved long term financial plan deliver self-sustaining council asset renewal? (type of council)

Figure 7.7: Does your approved long term financial plan deliver self-sustaining council asset renewal? (council jurisdiction)

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Asset strategic planning

Primary responsibility for corporate and services assets

Councils rely heavily on asset managers to assume the primary responsibility and accountability for the strategic planning of larger infrastructure assets versus corporate assets; 61% of councils allocate primary responsibility to asset managers for infrastructure assets, compared to 29% of councils for corporate assets.

However, our findings suggest a slight shift in the allocation of primary responsibility from the asset managers to the business unit (BU) managers.

For services assets, 24% of councils rely on BU managers in assuming the primary responsibility role for these assets, up from 17% in the prior year.

For corporate assets, 35% of councils now rely on BU managers for the strategic asset planning of these shorter life assets, compared to 28% in the prior year.

In large councils, we see that the majority of the primary responsibility for corporate assets sits with BU managers (52%), followed by asset managers (37%). In the prior year, we observed small councils spreading the responsibility for corporate assets across the four functions. However, similar to the shift in the overall survey population, we now see an increase in responsibility for BU managers in small councils, increasing to 38%, up from 28% in the prior year.

Large councils mainly use two functions in the strategic planning of higher-valued services assets; asset managers (70%) and business unit managers (26%). In contrast, the CEO in small and medium-sized councils plays both the role of leader as well as a more active hands–on role in the strategic planning of services assets, with 19% of small councils and 14% of medium councils relying on the CEO, compared to 4% of large councils.

Figure 7.8: Which function maintains primary responsibility and accountability for strategic planning of your corporate and services assets?

Figure 7.9: Which function maintains primary responsibility and accountability for strategic planning of your corporate and services assets? (Medium councils only)

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Asset Management

Asset management responsibility

Day to day responsibility for corporate and services assets

As part of our analysis, we also looked at the function(s) that play a role in the day to day management of both services and corporate assets. In this case, councils could select more than one function for both categories of assets.

With the larger infrastructure assets, our results show a lower reliance on specialist asset managers for day-to-day responsibility, falling from 84% to 76% of councils, with an uptick in the increased responsibility for day-to-day management by finance (17% of councils, up from 9% in the prior year) and the CEO office (10% of councils, up from 4%). This trend is observed across all council jurisdictions.

In comparison, business unit managers are given more day to day responsibility on corporate assets in 62% of councils, compared to 51% of councils allocating this type of responsibility to asset managers.

We also observe finance and the CEO office playing an important role in the day to day management of corporate assets, with 43% of councils using finance and 18% using the CEO office. These results are higher than the prior year results, particularly for the CEO office, increasing from 10% of councils. This increase is mainly driven by NSW and NZ councils.

When it comes to managing the more highly-valued services assets on a day-to-day basis, we see NSW and NZ councils more likely to use asset managers (82% and 74%) rather than business unit managers (59% and 56%). Conversely, there is a lesser reliance on specialised asset managers in SA and WA councils; 65% and 71% respectively rely on asset managers, indicating a lesser degree of specialisation on the larger infrastructure assets.

Figure 7.10: Which function(s) maintain day to day responsibility and accountability for managing corporate and services assets?

Figure 7.11: Which function(s) maintain day to day responsibility and accountability for managing corporate and services assets? (NSW councils only)

Participating Councils

List of participating councils by jurisdiction

The table below shows the list of particpating councils that make up the survey population in the FY17 LG Performance Excellence Survey Program:

New South Wales

1. Albury City Council
2. Armidale Regional Council
3. Ballina Shire Council
4. Bathrust Regional Council
5. Bega Valley Shire Council
6. Belligen Shire Council
7. Bland Shire Council
8. Blayney Shire Council
9. Broken Hill Council
10. Byron Shire Council
11. Cabonne Shire Council
12. Cessnock City Council
13. City of Canada Bay Council
14. Clarence Valley Council
15. Coffs Harbour City Council
16. Coolamon Shire Council
17. Dubbo Regional Council
18. Eurobodalla Shire Council
19. Georges River Council
20. Goulburn Mulwaree Council
21. Greater Hume Shire Council
22. Griffith City Council
23. Gwydir Shire Council
24. Hilltops Council
25. Hunters Hill Council
26. Kempsey Shire Council
27. Kiama Muncipal Council
28. Lachlan Shire Council
29. Lake Macquarie Council
30. Lane Cove Council

31. Lithgow City Council
32. Liverpool City Council
33. Midcoast Council
34. Murrumbidgee Council
35. Nambucca Shire Council
36. Narrabri Shire Council
37. Narrandera Shire Council
38. Newcastle City Council
39. Oberon Council
40. Parkes Shire Council
41. Penrith City Council
42. Port Macquarie - Hastings Council
43. Port Stephens Council
44. Queanbeyan - Palerang Regional Council
45. Richmond Valley Council
46. Shellharbour City Council
47. Shoalhaven City Council
48. Singleton Council
49. Snowy Valleys Council
50. Sutherland Shire Council
51. Tamworth Regional Council
52. Temora Shire Council
53. Tweed Shire Council
54. Upper Hunter Shire Council
55. Upper Lachlan Shire Council
56. Uralla Shire Council
57. Willoughby City Council
58. Wingecarribee Shire Council
59. Wollongong City Council
60. Yass Valley Council

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New Zealand

1. Ashburton District Council
2. Auckland Council
3. Clutha District Council
4. Dunedin City Council
5. Environment Canterbury Regional Council
6. Far North District Council
7. Gisborne District Council
8. Hauraki District Council
9. Hurunui District Council
10. Masterton District Council
11. Nelson City Council
12. New Plymouth District Council
13. Northland Regional Council
14. Otago Regional Council
15. Porirua City Council
16. Rangitikei District Council
17. Ruapehu District Council
18. South Waikato District Council
19. Southland District Council
20. Taranaki District Council
21. Tasman District Council
22. Waikato Regional Council
23. Wairoa District Council
24. Waitaki District Council
25. Wellington District Council
26. Western Bay of Plenty District Council
27. Whangarei District Council

South Australia

1. Adelaide Hills Council
2. Alexandrina Council
3. City of Adelaide
4. City of Charles Sturt
5. City of Onkaparinga
6. City of Port Adelaide Enfield
7. City of Prospect
8. City of Salisbury
9. City of Victor Harbor
10. Copper Coast Council
11. District Council of Mount Remarkable
12. Flinders Ranges Council
13. Mount Barker District Council
14. Naracoorte Lucindale Council
15. Port Pirie Regional Council
16. Wakefield Regional Council
17. Yorke Peninsula Council

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Western Australia

1. City of Armadale
2. City of Bayswater
3. City of Bunbury
4. City of Canning
5. City of Cockburn
6. City of Gosnells
7. City of Joondalup
8. City of Kalgoorlie - Boulder
9. City of Melville
10. City of Perth
11. City of Rockingham
12. City of Subiaco
13. City of Swan
14. City of Wanneroo
15. Shire of Augusta - Margaret River
16. Shire of Capel

17. Shire of Cuballing
18. Shire of Dardanup
19. Shire of Harvey
20. Shire of Irwin
21. Shire of Kalamunda
22. Shire of Katanning
23. Shire of Merredin
24. Shire of Mundaring
25. Shire of Murray
26. Shire of Northam
27. Shire of Serpentine Jarrahdale
28. Town of Cambridge
29. Town of Mosman Park
30. Town of Port Hedland
31. Town of Victoria Park

Queensland

1. Whitsunday Regional Council

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Contacts

Contacts

The LG Performance Excellence Program FY17 is produced in conjunction with Local Government Professionals Australia, NSW and the results are analysed by PwC.

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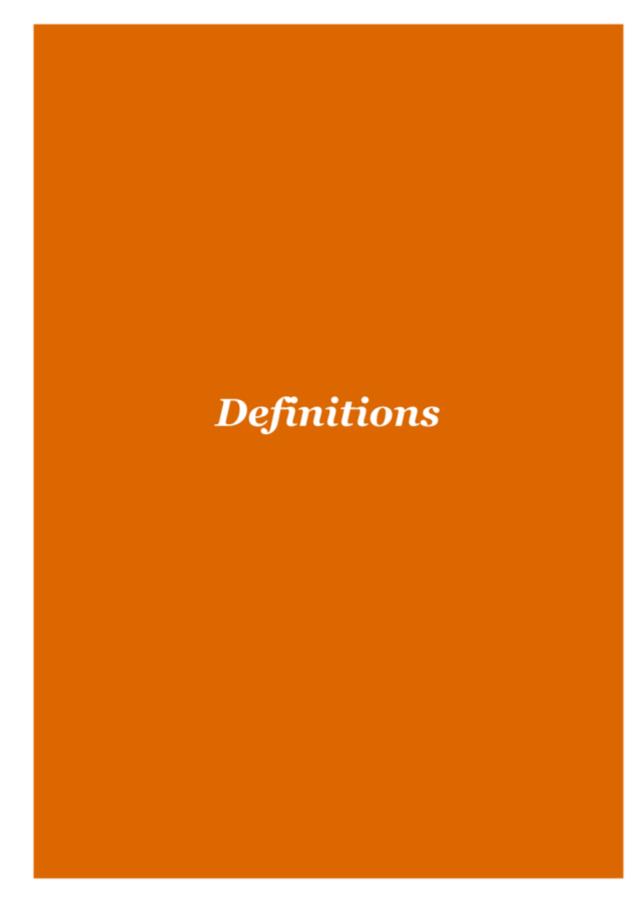
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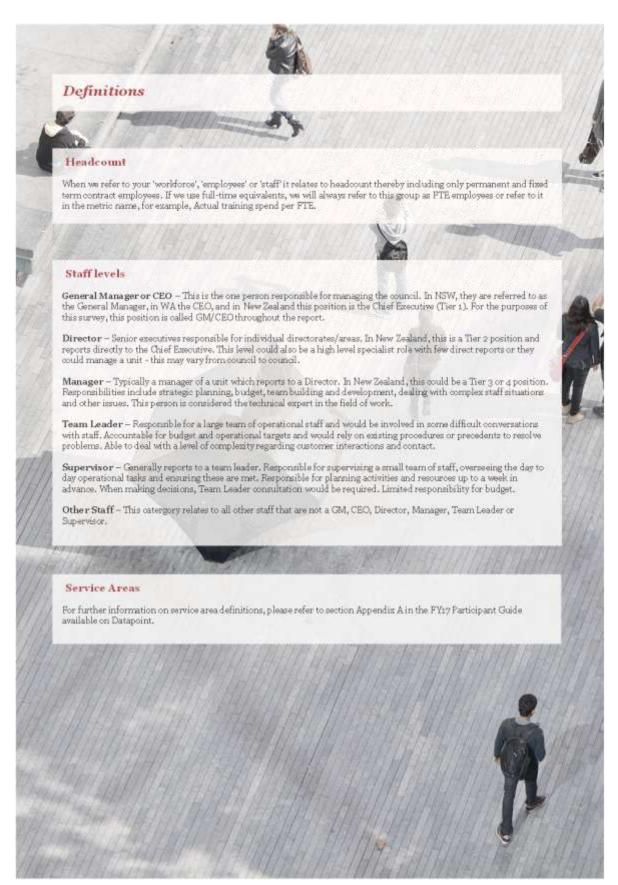
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Definitions

Definitions

Headcount

Headcount includes permanent and fixed term contract employees based on your submitted HR extract. Casual employees are excluded. We calculate headcount at two points in the financial year, 1 July for opening headcount and 30 June for closing headcount

Full time equivalents (FTE)

FTE includes permanent, fixed term contract employees and casuals based on your submitted HR extract. We calculate FTE at two points in the financial year, 1 July for opening FTE and 30 June for closing FTE.

Calculating headcount or FTE at 1 July 2016

Headcount or FTE employees with the following criteria are included:

- Start date on or before 1 July 2016
- An FTE status greater than zero at 1 July 2016 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 1 July 2016

Calculating headcount of FTE at 30 June 2017

Headcount of FTE employees with the following criteria are included:

- Start date on or before 30 June 2017
- An FTE status greater than zero at 30 June 2017 (FTEs of zero or blank are NOT included)

Headcount or FTE employees with the following are excluded:

- A termination date before 30 June 2017

Calculating Service area FTE

The calculation for FTE by service area is made up of two components:

1. The sum of all closing FTE at 30 June for permanent and fixed term contract staff where no casual hours were worked during the year

2. If casual hours were worked during the year, we ignore the closing FTE value for those staff and instead sum those casual hours worked in a particular service area throughout the financial year and convert into an FTE value by using a 38 hour week. This reflects the seasonal nature of some service areas eg. pools, beach control.

Definitions

Headcount

When we refer to your 'workforce', 'employees' or 'staff' it relates to headcount thereby including only permanent and fixed term contract employees. If we use full-time equivalents, we will always refer to this group as FTE employees or refer to it in the metric name, for example, Actual training spend per FTE.

Staff levels

General Manager or CEO – This is the one person responsible for managing the council. In NSW, they are referred to as the General Manager, in WA the CEO, and in New Zealand this position is the Chief Executive (Tier 1). For the purposes of this survey, this position is called GM/CEO throughout the report.

Director – Senior executives responsible for individual directorates/areas. In New Zealand, this is a Tier 2 position and reports directly to the Chief Executive. This level could also be a high level specialist role with few direct reports or they could manage a unit - this may vary from council to council.

Manager – Typically a manager of a unit which reports to a Director. In New Zealand, this could be a Tier 3 or 4 position. Responsibilities include strategic planning, budget, team building and development, dealing with complex staff situations and other issues. This person is considered the technical expert in the field of work.

Team Leader – Responsible for a large team of operational staff and would be involved in some difficult conversations with staff. Accountable for budget and operational targets and would rely on existing procedures or precedents to resolve problems. Able to deal with a level of complexity regarding customer interactions and contact.

Supervisor – Generally reports to a team leader. Responsible for supervising a small team of staff, overseeing the day to day operational tasks and ensuring these are met. Responsible for planning activities and resources up to a week in advance. When making decisions, Team Leader consultation would be required. Limited responsibility for budget.

Other Staff – This catergory relates to all other staff that are not a GM, CEO, Director, Manager, Team Leader or Supervisor.

Service Areas

For further information on service area definitions, please refer to section Appendix A in the FY17 Participant Guide available on Datapoint.

www.pwc.com.au

Report on Local Government 2017

20 APRIL 2018

NEW SOUTH WALES AUDITOR-GENERAL'S REPORT   FINANCIAL AUDIT

THE ROLE OF THE AUDITOR-GENERAL

The roles and responsibilities of the Auditor-General, and hence the Audit Office, are set out in the *Public Finance and Audit Act 1983* and the *Local Government Act 1993*.

We conduct financial or 'attest' audits of State public sector and local government entities' financial statements. We also audit the Total State Sector Accounts, a consolidation of all agencies' accounts.

Financial audits are designed to add credibility to financial statements, enhancing their value to end-users. Also, the existence of such audits provides a constant stimulus to entities to ensure sound financial management.

Following a financial audit the Audit Office issues a variety of reports to entities and reports periodically to parliament. In combination these reports give opinions on the truth and fairness of financial statements, and comment on entity compliance with certain laws, regulations and government directives. They may comment on financial prudence, probity and waste, and recommend operational improvements.

We also conduct performance audits. These examine whether an entity is carrying out its activities effectively and doing so economically and efficiently and in compliance with relevant laws. Audits may cover all or parts of an entity's operations, or consider particular issues across a number of entities.

As well as financial and performance audits, the Auditor-General carries out special reviews and compliance engagements.

Performance audits are reported separately, with all other audits included in one of the regular volumes of the Auditor-General's Reports to Parliament – Financial Audits.

GPO Box 12
Sydney NSW 2001

The Legislative Assembly
Parliament House
Sydney NSW 2000

The Legislative Council
Parliament House
Sydney NSW 2000

In accordance with section 421C of the *Local Government Act 1993*, I present a report titled **'Report on Local Government 2017'.**

Margaret Crawford
Auditor-General
20 April 2018

auditoffice
OF NEW SOUTH WALES

audit.nsw.gov.au

Contents

Report on Local Government 2017

Report on Local Government 2017

This report analyses the results of the financial statement audits of
NSW councils in 2016–17.

Auditor-General's foreword

Under section 421C of the *Local Government Act 1993*, I am pleased to present our first report on the statutory financial audits of councils, to NSW Parliament.

My appointment as the auditor of local government in New South Wales is the most significant change to the Auditor-General's mandate in nearly three decades.

Moving to the new audit arrangements over the past 18 months has been challenging but rewarding. It has confirmed my appreciation of local government – a sector passionate about the community and focused on delivering local services.

The unique relationship each council has with its community differentiates it from other tiers of government.

Our audits

I am pleased to report that we completed 139 out of 140 financial statement audits for the 2016–17 audit cycle. The remaining council received an extension to lodge its financial statements.

We have also released a performance audit report on council reporting on service delivery. We will soon release another report on fraud controls in local councils and a report on council shared services later this year.

While the new audit mandate brings immense responsibility, my office has embraced the challenges involved and the objectives that NSW Parliament gave us:

- strengthening governance and financial oversight in local government
- providing greater consistency in external audit
- ensuring reliable financial information is available to assess council performance
- improving financial management, fiscal responsibility and public accountability in how councils use citizens' funds.

This report

This report is rich in data extracted from the results of the 2016–17 financial audits. For the first time, it presents a consistent view of financial performance across the New South Wales local government landscape. The report also provides guidance and includes recommendations to councils and the Office of Local Government aimed at strengthening financial reporting, asset management, governance and internal controls.

The report will help NSW Parliament understand the common challenges that councils face. It provides points of comparison for councils and signposts matters that will be the focus of future audits. Importantly, this report and the data visualisation that accompanies it, provides comprehensive and accessible information to citizens regarding the management and performance of their councils.

I would like to acknowledge the cooperation of councils throughout the audit process and our partnerships with the contract audit firms that helped us to deliver the audits. Together we can learn from each other and work towards improving outcomes for the community.

Executive summary

1. Introduction

Local government sector

NSW has 140 councils: 128 local councils serving a geographic area and 12 county councils formed for a specific purpose.

We completed audits of 139 councils' 2016–17 financial statements and eight councils' 2015–16 financial statements. Bayside Council received a lodgement extension from the Office of Local Government (OLG) and has not yet presented their 2016–17 financial statements for audit.

Service delivery

Each council provides a range of services, influenced by population density, demographics, the local economy, geographic and climatic characteristics. These differences influence the financial profile of councils.

2. Financial reporting

Quality of financial reporting

The overall quality of financial reporting needs to improve:

- we issued modified (qualified) audit opinions on the financial statements of three councils in 2016–17 and one council and one water authority in 2015–16
- we reported 39 significant matters to 29 councils. They related to material accounting issues and significant deficiencies in internal controls
- twenty-two councils required material adjustments to correct errors in previous audited financial statements
- moderate risk issues were identified in financial statement preparation processes for 43 councils.

OLG guidance for council year-end financial reporting needs to align with Australian Accounting Standards and be issued earlier.

Timeliness of financial reporting

Timeliness of financial reporting needs to improve. Forty councils required lodgement extensions past the 31 October 2017 statutory reporting deadline.

3.   Financial performance and sustainability

Operating revenue

Eighteen councils operating expenses exceed current operating revenue.

Fifty-nine councils do not meet OLG's target of 60 per cent for own source operating revenue.

Liquidity and working capital

Most councils have sufficient liquidity and working capital. However, there are indicators that:

- three councils may not have the ability to meet short-term obligations as measured by the unrestricted current ratio
- two councils may not have sufficient operating cash available to service debt as measured by the debt service cover ratio
- eighteen councils do not meet the OLG benchmark for the collection of rates and annual charges
- five councils may not have sufficient cash to continue paying expenses without additional cash inflows as measured by the cash expense cover ratio.

Asset management measures

Reporting against OLG's asset management performance measures highlights that councils need to consider whether spending on existing infrastructure assets is sufficient to ensure they continue to meet service delivery standards:

- seventy councils are not renewing assets in line with the rate of their depreciation
- eighty-four councils did not meet OLG's benchmark for managing the infrastructure maintenance backlog
- seventy-one councils are not maintaining their assets in accordance with their asset management plans.

4.   Asset management

High risk issues

We reported ten high risk issues relating to councils' asset management and accounting practices.

Asset reporting

The accuracy of asset registers requires improvement and all assets need to be reported in the financial statements.

At 30 June 2017, 62 councils did not record all rural fire-fighting equipment in their financial statements. A large proportion of rural fire-fighting equipment is not reported in either State government or local government financial statements.

Asset valuation

We reported seven high risk matters related to asset valuations, including two that resulted in qualified audit opinions.

Asset useful life estimates

We identified that accounting for the useful lives of similar assets varied across councils, resulting in variable depreciation expense for these assets.

In addition, the useful lives of assets need to be reviewed annually. This review should be supported by current condition assessments.

Asset policy and planning

Thirteen councils do not have an asset management strategy, policy and plan, as required by the Office of Local Government's Integrated Planning and Reporting Framework.

5.   Governance and internal controls

High risk issues	We reported 17 high risk issues relating to governance, financial accounting, purchasing and payables and payroll matters.
Governance	There is currently no requirement for councils to have an audit, risk and improvement committee and internal audit function. Consequently, 53 councils do not have an audit committee and 52 councils do not have an internal audit function.
	The Office of Local Government has incomplete information on the number of entities established by councils. There is no financial reporting framework for the variety of entities established by councils.
	Councils can strengthen policies and procedures to support critical business processes, practices for risk management and compliance with key laws and regulations.
Internal controls	Councils can improve internal controls over manual journals, reconciliations, purchasing and payables and payroll.

6.   Information technology

High risk issues	We reported nine high risk issues relating to information technology.
Access to IT systems	Controls over user access to IT systems need to be strengthened.
Information Technology governance	IT governance benefits from appropriate policies, standards and guidelines across all critical IT processes. We identified that:

- around one in four councils do not have an IT strategy or operational plan
- half of NSW councils have an IT security policy
- seventeen councils do not have a documented plan to recover from a disaster.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Executive summary

1.   Introduction

The Auditor-General has the mandate under the *Local Government Act 1993* to audit the NSW local government sector. One-hundred and thirty-nine councils presented their 2016–17 financial statements and eight councils also presented their 2015–16[1] financial statements for audit. These audits have been completed. The Office of Local Government (OLG) granted Bayside Council an extension until 31 May 2018 to lodge their 2016–17 financial statements and Bayside Council has not yet presented them for audit.

We also tabled a performance audit report on 'Council reporting on service delivery' on 1 February 2018. We will soon release a report on 'Fraud controls in local councils' and a report on 'Council shared services' later this year.

This report focuses on the results of our financial audits, highlights issues that were common across the local government sector and provides guidance that councils should consider. This will help Parliament understand the challenges that councils face and the measures that can improve their financial management and reporting.

Each council provides a range of services to meet its communities' needs

New South Wales has 128 local councils servicing a geographic area, and 12 county councils formed for specific purposes, such as supplying water, managing flood plains or eradicating noxious weeds. Each council provides a range of services, influenced by population density, demographics, the local economy, geographic and climatic characteristics. These differences also influence the spending profile of metropolitan, regional and rural councils.

2.   Financial reporting

Each year, councils lodge their audited financial statements with OLG and publish them on their website. Council financial statements capture their financial activities, performance and position.

We issued five modified (qualified) audit opinions and identified a range of material financial reporting errors and significant accounting and control issues

We issued unmodified audit opinions on the financial statements of:

- one-hundred and thirty-six out of 139 councils for 2016–17
- two water authorities for 2016–17
- seven out of eight councils for 2015–16
- two out of three water authorities for 2015–16.

An unmodified audit opinion means that the financial statements present fairly the financial position and performance of the council. The Hills Shire Council, Junee Shire Council and Yass Valley Council received modified (qualified) audit opinions for 2016–17. We also issued disclaimers of opinion for the City of Botany Bay Council and Gosford Water Authority for 2015–16.

Our audits identified a further 33 material errors in the previous years' audited financial statements of 22 councils that have been corrected. Eighty-eight per cent of these errors related to the way councils account for and value assets.

We also reported 39 significant matters to 29 councils. These related to material accounting issues and internal control weaknesses, of which 77 per cent related to assets. Councils should improve the way they account for their assets as a priority.

---

[1] The Auditor-General was appointed statutory auditor of eight councils for the 2015–16 reporting period due to the following reasons:

- specific request of councils
- failure by councils to appoint an auditor
- inability of the previous auditor to complete the audit due to external investigation
- auditor retirement.

Chapter 4 of this report further discusses the asset accounting issues identified during our audits.

Councils can improve their financial reporting processes

Our audits found that 43 councils need to improve the way they prepare their financial statements. A more robust review of the financial statements by councils prior to submitting them for audit would improve both quality and timeliness.

Recommendation

> Councils can improve the quality of financial reporting by reviewing their financial statements close processes to identify areas for improvements.

Our experience at the State level shows that the preparation of annual financial statements benefits from review by independent audit committees.

Councils are not currently required to have an audit, risk and improvement committee and consequently 53 councils do not have an audit committee. For those councils with an audit committee, 55 per cent play no role in the review of financial statements.

Amendments made to the *Local Government Act 1993* by the *Local Government Amendment (Governance and Planning) Act 2016* will require all councils to appoint an audit, risk and improvement committee. Under transitional provisions, councils will not be required to comply until March 2021, six months after the next ordinary election.

Recommendation

> Councils can improve the quality of financial reporting by involving an audit, risk and improvement committee in the review of financial statements.

OLG can improve the quality and timeliness of guidance provided to councils each year

The Office of Local Government (OLG) needs to release key guidance documents, such as the Local Government Code of Accounting Practice and Financial Reporting (Code) and end of year financial reporting circular, to councils earlier.

Councils are required to prepare financial statements in accordance with Australian Accounting Standards and the Code. The Code applicable for 2016–17 financial reporting provided options and guidance that in some instances did not align with Australian Accounting Standards.

Recommendation

> The Office of Local Government should release the Local Government Code of Accounting Practice and Financial Reporting and the End of Year Financial Reporting Circular earlier in the audit cycle, ideally by 30 April each year.
>
> The Local Government Code of Accounting Practice and Financial Reporting should align with Australian Accounting Standards.

Seventy-one per cent of councils lodged audited financial statements by the statutory deadline

Councils must lodge audited financial statements with OLG by 31 October each year, that is, within four months after the end of their financial year. Forty councils did not meet this deadline for their 2016–17 financial statements and required an extension from OLG. Bayside Council received a lodgement extension for their 2016–17 financial statements to 31 May 2018 and has not yet presented them for audit.

Early close procedures help to improve the quality and timeliness of financial reporting

Early close procedures can identify issues and key risk areas that councils need to consider and resolve before the year-end process. Asset valuation issues affected the quality and timeliness of many councils' financial statements in 2016–17. Completing infrastructure, property plant and equipment valuations is a key early close procedure that can improve the quality and timeliness of financial reporting.

Recommendation

The Office of Local Government should introduce early close procedures with an emphasis on asset valuations.

3. Financial performance and sustainability

Our next chapter reviews the financial performance of councils using indicators that the OLG prescribe. Councils must report against these in their audited financial statements:

- operating performance
- own source operating revenue
- unrestricted current ratio
- debt service cover ratio
- rates and annual charges outstanding percentage
- cash expense cover ratio.

Councils' annual reports also include the unaudited Special Schedule 7 'Report on Infrastructure Assets', in which councils report performance against four further measures:

- building and infrastructure renewals ratio
- infrastructure backlog ratio
- asset maintenance ratio
- cost to bring assets to agreed service level.

Three rural councils did not meet OLG benchmarks for three audited performance measures

Most councils met OLG benchmarks for at least five or all of the six audited performance measures. Eight rural, four regional, four metropolitan and two county councils did not meet OLG's benchmarks for two out of the six audited performance measures. Three rural councils did not meet OLG's benchmarks for three out of the six audited performance measures.

Eighteen councils operating expenses exceed their revenue base

The first measure of financial sustainability looks at the operating revenue that councils raise to cover their operating expenses. Eighteen councils operating expenses exceed their revenue base. For 11 councils, this has been the case for the past three years. Another 20 councils would not have met the operating performance benchmark without the advance receipt of their 2017–18 financial assistance grant, which was recorded as revenue during 2016–17.

Fifty-nine councils did not meet the OLG benchmark for generating own source revenue

Councils are also expected to generate 60 per cent of their revenue from their own sources. Fifty-nine councils did not meet this OLG benchmark, and 42 of these were rural councils. Rural councils have high-value infrastructure assets that cover large areas, with smaller populations and less capacity to raise revenue from alternative sources compared with metropolitan councils.

Most councils have sufficient liquidity and working capital

All but three councils met OLG's benchmark for the unrestricted current ratio, meaning the councils can meet short-term obligations as they fall due.

Most councils also have the capacity to cover more than three months of operating expenditure as measured by the cash expense cover ratio. However, some of the funds held by councils are restricted and should only be used for specific purposes.

A council with a high proportion of restricted funds may have limited flexibility to pay operating expenses. While a council can resolve to lift internal restrictions on funds to use them for a different purpose, the Minister for Local Government's approval is required to use externally restricted funds for another purpose.

All but two councils met OLG's debt service cover ratio benchmark

The debt service cover ratio measures the operating cash available to service debt. All but two councils met OLG's benchmark of greater than two times. This was due to these two councils repaying borrowings early.

One-hundred and twenty-three councils reported borrowings at 30 June 2017. Councils utilise borrowings to fund capital projects and to address backlog maintenance. Regional councils accounted for 56 per cent of the value of total council borrowings because they also borrow to manage water and sewerage infrastructure.

Eighteen councils did not meet OLG's benchmark for collecting rates and annual charges

Most councils are collecting rates and annual charges levied. However, eight rural, five regional, three metropolitan and two county councils did not meet the benchmark of having less than five per cent (metropolitan) or ten per cent (regional, rural and county) of rates and charges outstanding. These eighteen councils also did not meet the infrastructure backlog ratio.

Many councils did not meet OLG's benchmarks for renewing and maintaining infrastructure assets

The infrastructure asset indicators reported by councils suggest that many need to examine their asset management plans and consider whether investment in infrastructure assets is sufficient. Thirty-one councils reported they do not meet the OLG benchmarks for either the buildings and infrastructure renewals ratio, the infrastructure backlog ratio or the asset maintenance ratio. Individually:

- seventy councils reported that they are not renewing infrastructure assets at the same rate they are depreciating them
- eighty-four councils reported that they have not kept the infrastructure maintenance backlog below OLG's benchmark
- seventy-one councils reported actual asset maintenance lower than planned asset maintenance.

4. Asset management

NSW councils own and manage a significant range of assets, including infrastructure, property, plant and equipment with a value of $136 billion. Many of our audit report qualifications, significant matters, prior-period errors and high risk issues related to assets.

Councils need to strengthen their asset registers

Our audits identified $145 million worth of land and infrastructure assets at 24 councils that were not recorded in asset registers or the financial statements. This is in addition to the rural fire-fighting equipment not recorded by councils that is discussed in the following sections. We also found examples of multiple asset registers with conflicting information, inaccurate or incomplete registers and unreconciled registers.

Effective asset management requires accurate records of the assets that councils control. Council asset registers should accurately capture all assets to improve the quality and timeliness of financial statements. It is important that councils regularly update registers and reconcile them with asset management systems. Where manual spreadsheets are used to record asset details, suitable controls must be in place.

A large part of rural fire-fighting equipment is not reported in government financial statements

Our 2016–17 audits of the NSW local government sector noted that 46 councils did record vested rural fire-fighting equipment in their financial statements. However, 62 councils do not record similar rural fire-fighting assets in their financial statements. These councils are of the view that they do not control these rural fire-fighting assets used by the NSW Rural Fire Service.

NSW Treasury and the NSW Rural Fire Service are of the view that the NSW Rural Fire Service does not control rural fire-fighting equipment which has been vested in councils under the *Rural Fires Act 1997*. NSW Treasury and NSW Rural Fire Service consider that these assets are controlled by councils. The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets. Consequently, a large portion of rural fire-fighting assets are not reported in either State government or local government financial statements.

Recommendation

> The Office of Local Government should address the different practices across the local government sector in accounting for rural fire-fighting equipment before 30 June 2018.

> In doing so, the Office of Local Government should work with NSW Treasury to ensure there is a whole-of-government approach.

Asset valuation methods are not capturing asset values effectively

The Code requires that council assets reflect the fair value principles in Australian Accounting Standards.

Many significant issues arose in our audits because council asset revaluation processes were not robust. This affected both the quality and timeliness of the financial statements.

Our audits identified that ten councils overstated the fair value of land assets as their valuations did not take into account external restrictions on community land or land under roads as required by the Code and Australian Accounting Standards. This was the reason for one-third of the material errors that needed to be corrected in councils' previous years' audited financial statements and for the qualified audit opinion issued on The Hills Shire Council's 2016–17 financial statements.

We also found multiple cases where councils did not adequately review valuation results, comply with applicable codes or obtain accurate valuations. This was the reason for the qualified audit opinion issued on Junee Shire Council's 2016–17 financial statements.

Councils need to improve their asset valuation processes by strengthening reviews, supporting valuations with robust documentation and commencing the revaluation process earlier in the financial year.

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Considerable variability in the way councils report the useful lives of similar assets

We found considerable variability in the way councils reported the useful lives of similar assets in their financial statements. This in turn affects the depreciation expense recognised in councils' financial statements and the key performance indicators that councils report. The useful lives of all assets need to be reviewed annually using current asset condition assessments.

All councils should comply with OLG asset planning requirements

Sound asset management requires effective planning. All councils should meet the asset management planning requirements in OLG's Integrated Planning and Reporting Framework to help ensure they have a plan to manage assets efficiently over their life.

We found that 13 councils did not have an asset management policy, strategy and plan.

5.   Governance and internal controls

Councils should prioritise high risk governance and control deficiencies

Our audits reported 17 high risk issues relating to policies and procedures, risk management, manual journals, reconciliations, purchasing and payables, and payroll processes. It is important to address high risk matters as a priority.

Councils can improve management oversight and governance structures

We found that councils can strengthen governance measures, by having audit committees and internal audit functions, policies and procedures for critical business processes, legislative compliance frameworks and risk management practices.

Councils are not currently required to have an audit, risk and improvement committee and consequently 53 councils do not have an audit committee. Proposed legislative changes will require all councils to appoint an audit, risk and improvement committee by March 2021.

Recommendation

> Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee.

An internal audit function is currently not a requirement for councils, and consequently, 52 councils do not have this function. In addition, the Office of Local Government (OLG) has not updated its Internal Audit Guidelines since they were issued in 2010.

Recommendation

> The Office of Local Government should introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.

The Office of Local Government's register of council entities is not complete

The *Local Government Act 1993* requires councils to obtain the consent of the Minister for Local Government before forming a corporation or any other entity[2], as defined under section 358(4) of the Act (referred to as a 'council entity'). OLG maintains a register of council entities for which ministerial approval has been sought. Our audit work concluded that the register that OLG maintains is not complete.

Recommendation

> The Office of Local Government should maintain an accurate register of entities approved under section 358 of the *Local Government Act 1993*.

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[2] Section 358(4) of the *Local Government Act 1993* defines entity as 'any partnership, trust, joint venture, syndicate or other body (whether or not incorporated), but does not include any such entity that is of a class prescribed by the regulations as not being within this definition'.

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We also found that the *Local Government Act 1993* does not stipulate a financial reporting framework for council entities. As a result, there are disparate reporting and auditing practices for entities established across the sector.

Recommendation

The Office of Local Government should consider establishing a financial reporting framework for council entities.

Councils can strengthen policies and procedures to support business processes

Our audits identified two high risk instances in two councils where business and IT policies and procedures did not exist to support critical business and information technology processes. It is important that critical policies, standards and guidelines are available to staff and contractors to provide direction for the day-to-day operations of a council, promote consistency in processes, clarify roles and responsibilities and support compliance with laws, regulations and codes.

Councils can improve internal controls in business processes

Effective internal controls are important to help councils operate efficiently and effectively, to meet service delivery objectives, and to enable accurate and timely reporting.

We identified two high risk issues where councils had weak controls over manual journals. In one instance, this resulted in significant errors in the financial statements. Councils should independently review manual journals and prepare and review account reconciliations earlier.

We identified five high risk internal control deficiencies in the purchasing function relating to unauthorised expenditure, non-compliance with tendering guidelines and a significant breakdown of purchasing controls.

We noted one high risk internal control deficiency in the payroll function related to payroll staff having unrestricted access to amend sensitive payroll data in the system.

6.   Information technology

Like many organisations, councils increasingly rely on information technology (IT) to deliver services and manage sensitive information.

Our audits reported nine high risk issues, predominantly related to inappropriate user access. Information technology deficiencies represented the highest number of issues we reported.

Controls over user access to IT systems need to be strengthened

User access controls reduce the risk of users having excessive access to critical financial systems and sensitive information. Our audits found many instances where user access controls were insufficient. These controls should ensure that individuals only have access to financial systems and data necessary to undertake their job responsibilities.

Our audits also found examples of users with inappropriate privileged access In addition, we found instances of inadequate review and insufficient retention of access logs to monitor the activities of privileged system users. Privileged access occurs when a person can change key system configurations and has wide access to system data, files and accounts. We also identified external IT service providers with unrestricted privileged access to council systems and data.

It is important that councils strengthen user access administration to prevent inappropriate access. They should update user access roles in line with the responsibilities of a position and review the level of user access regularly. Councils also need to ensure their existing risk management framework provides assurance for controls over IT outsourcing, and strengthen controls where required.

We identified weaknesses in user developed applications (UDAs), which are developed or managed outside IT administration. This increases the risk of errors that may adversely affect the integrity and quality of information produced. Councils need to adequately control UDAs where they continue to use them and back up business-critical information.

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Councils need to strengthen information technology governance

IT governance should be founded on:

- a fit-for-purpose IT strategy and operational plan
- appropriate policies, standards and guidelines across all critical IT processes.

We found that one in four councils do not have an IT strategy or IT operational plan and some need to develop or improve IT policies and procedures. Sixty-six councils do not have an adequate information security policy.

Seventeen councils also do not have a documented plan to recover from a disaster. Councils need to develop a plan and periodically review it. They also need to periodically test that they can restore backed-up data to ensure business continuity in the face of a system disaster.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Executive summary

1. Introduction

1.1   The local government sector

Local government is the third tier of government. It is established under State legislation, which defines the powers and geographical areas each council is responsible for.

Each council is a statutory corporation. Elected councillors form the governing body that directs council affairs in line with the *Local Government Act 1993* and Local Government (General) Regulations 2005.

Local councils deliver services and infrastructure to a geographic area. County councils are formed for specific purposes such as to supply water, manage flood plains or eradicate noxious weeds.

During 2016, the NSW local government sector was reduced from 166 to 140 councils, resulting in 128 local councils and 12 county councils. This was due to council amalgamations that formed 19 new councils on 12 May 2016 and one new council on 9 September 2016. Appendix four lists the former councils that were amalgamated into 20 new councils.

The table below shows the number of councils before and after amalgamations.

Council categories	Number of councils before amalgamations	Number of councils after amalgamations (as at 30 June 2017)
Metropolitan	38	34
Regional	48	37
Rural	66	57
County	14	12
Total	**166**	**140**

From 1 July 2017, two more county councils were dissolved. The functions of:

- Mid-Coast County Council were transferred into the newly formed Mid-Coast Council
- Southern Slopes County Council were transferred into the Yass Valley Council and the newly formed Hilltops Council.

This report includes the audit results of the 139 councils that have lodged their 2016–17 audited financial statements with the Office of Local Government, plus two water authorities. Bayside Council received a lodgement extension for their 2016–17 financial statements to 31 May 2018 and has not yet presented them for audit.

This report also includes the audit results of the 2015–16 financial statements of eight councils and three water authorities.

In preparing this report, the comments and analysis are drawn from:

- audited financial statements
- data collected from councils
- audit findings reported to councils
- data from external sources, including population, kilometres of roads, and council area data obtained from the Australian Bureau of Statistics and the Office of Local Government.

We have also classified councils into four groups – metropolitan, regional, rural and county. Further details are provided in Appendix three.

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1.2   Service delivery

Councils invest significant resources each year to deliver a wide range of services to the community. These include waste collection, planning, child and family day care, and recreational services. Councils also build and maintain infrastructure, including roads, footpaths and drains, and enforce various laws.

Council services vary depending on community needs

While core functions, such as waste collection, are similar across councils, the range of services that each council provides varies greatly. The mix is influenced by population density, demographics, the local economy, geographic and climatic characteristics.

Spending on services

The following graphic shows the councils' expenditure by function in 2016–17.

Governance and administration 18%

Environment 17%

Recreation and culture 15%

Transport and communications 18%

Community services and education 5%

Sewerage supplies 6%

Water supplies 6%

Housing and community amenities 5%

Economic affairs 4%

Public order and safety 4%

Mining, manufacturing and construction 1%

Health 1%

a   Categories are based on the Local Government Purpose Classifications issued by the Australian Bureau of Statistics.

b   Appendix six provides further information on council expenditure by function.

Source: Audited financial statements for 2016–17. Excludes county councils.

In 2016–17, councils collectively reported expenditure of $11.4 billion, of which:

- $2.1 billion was for governance and administration, including corporate and support services, engineering works, council elections, meetings and policy-making committees, members' fees and expenses, subscriptions, public disclosures and legislative compliance.
- $2.1 billion was for transport and communications, including sealed and unsealed roads, bridges, footpaths, parking areas and aerodromes.
- $2.0 billion was spent on the environment, including waste management, sanitation and garbage, street cleaning, drainage and stormwater management, and environmental protection.
- $1.7 billion was spent on recreation and culture, including public libraries, museums, art galleries, community centres, public halls and performing arts venues, sporting grounds and venues, swimming pools, parks, gardens and lakes.

Metropolitan councils service sixty-five per cent of the State's population in an area of 12,135 square kilometres (1.7 per cent of the total State area). Regional and rural councils provide water and sewerage services to communities outside areas covered by metropolitan water utilities. Rural councils maintain almost 60 per cent of all roads controlled by local government authorities.

Twelve county councils perform activities that typically span across a number of council areas, such as supplying water, managing flood plains and eradicating noxious weeds.

Audit Office performance audit report on how councils report on service delivery

On 1 February 2018, the Auditor-General tabled a performance audit report on 'Council reporting on service delivery'. It concluded that councils reported well on their outputs, but there are opportunities to improve reporting on outcomes, efficiencies and results against targets.

1.3   Council data visualisation

To aid access, transparency, and comparison of councils' financial statement data, we have created a data visualisation as part of this report, which is available on the Audit Office of New South Wales website. The visualisation presents revenue, expense, operating surplus, asset and liability data, along with key financial performance and sustainability indicators for each council. The 2016–17 financial statement data used in the data visualisation tool is summarised in Appendix nine and ten of this report.
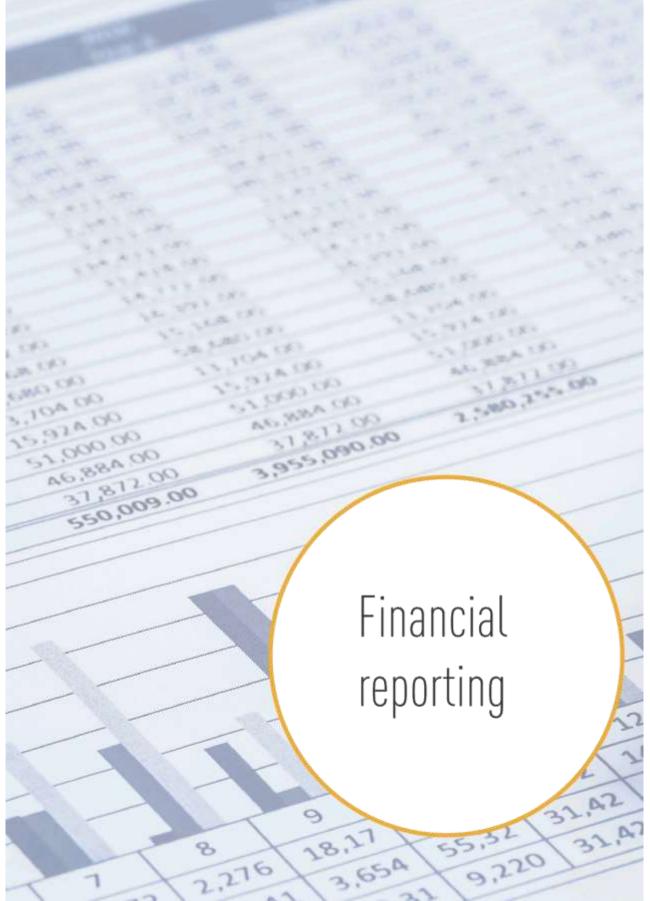
The data visualisation also presents minimum, median and maximum values within selected council groupings. While these values aid in comparison and assist further inquiry, a good or bad performance conclusion cannot be drawn from this data alone.

The visualisation excludes financial statement data for four councils due to either an incomplete audit, or where our audit opinion on the councils' financial statements was modified (qualified).

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Introduction

Financial reporting

2. Financial reporting

Accurate and timely financial statements are an important element of sound financial management. They bring accountability and transparency to the way councils use public resources. Our financial audits assessed the following aspects of councils' financial reporting:

- quality of financial reporting
- timeliness of financial reporting.

Observation	Conclusion or recommendation
2.1 Quality of financial reporting	
Qualified audit opinions	
We issued unmodified audit opinions on the: • 2016–17 financial statements of 136 councils and two water authorities • 2015–16[3] financial statements for seven councils and two water authorities.	The councils that received unmodified audit opinions prepared financial statements that fairly present their financial position and results.
We issued modified (qualified) opinions on the: • 2016–17 financial statements of three councils • 2015–16 financial statement of one council and one water authority.	Councils with modified opinions should address the issues that give rise to the audit qualification.
Significant audit matters	
We reported 39 significant matters in 29 councils. They included material accounting issues and significant deficiencies in internal controls. Seventy-seven per cent of the matters related to assets.	Significant issues with the quality of financial reporting delayed the completion of a number of audits. Improving the reporting on assets should be a priority.
Prior period errors	
We found 33 material errors worth $9.1 billion in the previous audited financial statements of 22 councils. These all required prior-year audited balances to be corrected. Eighty-eight per cent of these were asset-related.	The high number of asset-related prior-period errors reinforces the need for councils to improve the way they value and account for assets.
Financial statements	**Recommendation**
We reported 43 moderate risk findings where councils can improve the way they complete their financial statements.	Councils can improve the quality of financial reporting by reviewing their financial statements close processes to identify areas for improvements.
Of the councils that had an audit, risk and improvement committee, 55 per cent of these did not review the financial statements before audit.	**Recommendation** Councils can improve the quality of financial reporting by involving an audit, risk and improvement committee in the review of financial statements.

[3] The Auditor-General was appointed statutory auditor of eight councils for the 2015–16 reporting period at the specific request of councils, due to the failure by councils to appoint an auditor, or the inability of the previous auditor to complete the audit due to external investigation or auditor retirement.

Observation	Conclusion or recommendation
OLG guidance	**Recommendation**
To support councils in preparing 30 June 2017 financial statements, OLG issued guidance documents in June 2017 and September 2017. This limited the time councils had to prepare financial statements in the prescribed form and resolve financial reporting and audit issues.	The Office of Local Government should release the Local Government Code of Accounting Practice and Financial Reporting and the End of Year Financial Reporting Circular earlier in the audit cycle, ideally by 30 April each year.
The Code applicable for the 2016–17 financial reporting period provided options and guidance that in some instances did not fully align with Australian Accounting Standards.	**Recommendation**
	The Local Government Code of Accounting Practice and Financial Reporting should align with Australian Accounting Standards.
2.2 Timeliness of financial reporting	
Statutory deadlines	
One hundred councils submitted audited financial statements to OLG by the statutory deadline of 31 October 2017.	Councils need to improve their financial reporting processes in order to lodge their financial statements by the statutory reporting deadline.
Thirty-nine councils received reporting extensions up to 28 February, including 16 of the 20 newly amalgamated councils.	
Bayside Council received a reporting extension to 31 May 2018 and has not yet presented their financial statements for audit.	
Early close procedures	**Recommendation**
Councils currently do not use early close procedures to resolve accounting issues before the end of the financial year.	The Office of Local Government should introduce early close procedures with an emphasis on asset valuations.

2.1   Quality of financial reporting

Three indicators help to assess the quality of councils' financial statements:

- modified and unmodified audit opinions
- significant matters reported to management and those responsible for the governance of a council
- prior-period errors.

While we issued unmodified audit opinions for most councils, the number of significant matters and prior period errors indicate that the overall quality of financial reporting requires improvement.

Asset valuation issues affected the quality of many councils' financial statements in 2016–17, and were the reason for:

- two modified (qualified) audit opinions
- most of the prior-period errors, significant matters and high risk matters reported.

Audit opinions

The key outcome of our audits is an independent audit report on the financial statements that councils must produce each year. We issue either a modified or unmodified opinion on these reports, which indicates whether councils' financial statements fairly present their financial position and performance.

We issued five modified (qualified) audit opinions

We issued modified audit opinions on the:

- 2016–17 financial statements of three councils
- 2015–16[4] financial statements of one council and one water authority.

The following tables explain the reasons for our modified audit opinions.

Council	Reason for modified audit opinion on the financial statements
2016–17 financial statements	
The Hills Shire Council	The method used by council to value land under roads did not appropriately reflect external restrictions on the use of this land as required by Australian Accounting Standards.
Junee Shire Council	Council could not demonstrate that roads, bridges, footpaths and bulk earthworks were reported at fair value, as it did not value these asset classes during the year. The last valuation was conducted in 2012.
Yass Valley Council	Council did not record the receipt of financial assistance grants from the Australian Government as revenue in the year received, as required by Australian Accounting Standards.
2015–16 financial statements	
City of Botany Bay Council	Significant breakdowns in administrative, financial and governance internal controls affected the reliability of financial reporting of the former Council. A significant fraud involving former management was also identified in the reporting period.
	Consequently, councillors and management were unable to provide written representation that the financial statements present fairly the financial performance and position of the Council. As a result, Australian Auditing Standards require a disclaimer of opinion to be issued.
Gosford Water Authority	Management could not confirm it had recorded all transactions in the financial statements due to control weaknesses in the Authority's finance system.

In addition, one council received an unmodified audit opinion on its 2016–17 financial statements, that also emphasised an important matter.

Council	Reason for the emphasis of matter in the unmodified audit opinion
2016–17 financial statements	
Central Darling Shire Council	It was uncertain if the council could continue operating without using restricted water and sewer funds. Using externally restricted funds for other purposes requires Ministerial approval under the *Local Government Act 1993*. Ministerial approval was not obtained.

We issued unmodified audit opinions for the remaining:

- 136 councils and two water authorities on the 2016–17 financial statements
- seven councils and two water authorities on the 2015–16 financial statements.

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[4] The Auditor-General was appointed statutory auditor of eight councils for the 2015–16 reporting period at the specific request of councils due to the failure by councils to appoint an auditor, or the inability of the previous auditor to complete the audit due to external investigation or auditor retirement.

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We are yet to issue an audit opinion on Bayside Council's 2016–17 financial statements.

Council	Approved lodgement extension date	Reason for extension
Bayside Council	31 May 2018	The Office of Local Government approved a reporting extension for this council until 31 May 2018 due to incomplete financial records of the former City of Botany Bay Council.

The outcome of this incomplete audit will be reported in next year's report to Parliament.

Councils received unqualified audit opinions on special purpose financial information

Councils must also prepare two further documents that are audited:

- special purpose financial statements for declared business activities
- special schedule 8 'Permissible Income'.

The special purpose financial statements are required when councils provide services that compete in the marketplace. Special schedule 8 details the amount that councils can levy from rates for the next financial year. This amount is capped by the rate-peg limit set by the Independent Pricing and Regulatory Tribunal NSW.

The City of Botany Bay Council's 2015–16 special purpose financial statements were modified for the reason noted above. The Council did not prepare Special Schedule 8 'Permissible Income' in 2015–16.

Significant matters

Australian Auditing Standards require that we report significant matters identified during the audit to those responsible for the governance of a council. This includes the mayor or administrator, councillors and general manager. We also report significant matters to existing audit, risk and improvement committees, given their role in overseeing the financial reporting process.

Significant matters can include material accounting issues and internal control weaknesses.

The 2016–17 audits reported 39 significant matters

Our 2016–17 audits reported 39 significant matters in 29 councils. Most related to asset valuation and accounting issues, including:

- ineffective controls and procedures to support asset valuations
- not appropriately considering external restrictions on the use of community land and land under roads when determining the fair value of assets
- incorrect accounting for Crown reserves and investment properties.

We discuss the asset-related issues further in Chapter 4.

The non asset-related significant matters included:
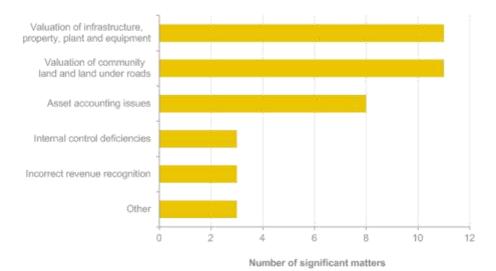
- internal control deficiencies over IT security
- incorrect recognition of revenue from government grants
- inappropriate use of corporate credit cards
- restricted funds used inappropriately.

The following graph below captures the range of significant matters we reported.

Significant matters reported across the 2016–17 financial audits

Source: Audited financial statements for 2016–17.

Prior-period errors

A prior-period error is an error identified in the current year that relates to the previous year's audited financial statements.

We found 33 material prior period financial reporting errors relating to 22 councils

Eighty-eight per cent of material prior-period errors related to assets, including:

- failure to account for external restrictions on the use of community land and land under roads
- assets that were not recorded in the financial statements
- incorrect accounting for Crown reserves and investment properties.
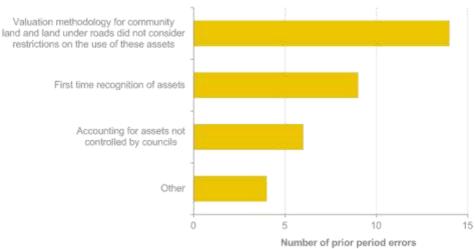
We discuss the asset-related issues further in Chapter 4.

The remaining errors related to applying Australian Accounting Standards incorrectly, such as recognising the revenue from government grants.

The graph below illustrates the nature of the prior-period errors we found, which had a total value of $9.1 billion. These errors meant that previous financial statements had to be corrected.

Material prior period errors identified across the 2016–17 financial audits

Source: Audited financial statements for 2016–17.

Financial statements

Councils need to improve the way they prepare financial statements

Recommendation

Councils can improve the quality of financial reporting by reviewing their financial statements close processes to identify areas for improvement.

The lack of robust quality assurance processes resulted in errors and disclosure deficiencies in councils' financial statements. At 43 councils, we considered these issues were significant enough to report as moderate risk findings in our management letters. Common issues include:

- incomplete note disclosures required by the Code, such as for related parties, commitments, fair value measurement, financial instruments, accounting policies and subsequent events
- incorrect classification of balances, such as employee provisions
- incorrect reporting of council entities, ownership percentages for interests in other entities and assets transferred on amalgamation
- errors in the cash flow statement and statement of changes in equity.

Better practice guides, such as the Australian National Audit Office's 'Public Sector Financial Statements: High quality reporting through good governance and processes' provide useful guidance, as the following checklist shows.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Financial reporting

Better practice: Financial statements preparation process

A better practice financial statements preparation process has the following attributes:

Has the visible commitment and support of the council and management.	Invests in a skilled and knowledgeable finance team.
Applies the concept of materiality to the preparation of the financial statements, including in deciding the level of disclosure required.	Applies good practice project management including the development of a detailed work plan and a focus on meeting agreed deadlines.
Maintains a strong and effective internal control framework.	Applies robust risk management practices.
Maintains effective, open and constructive relationships with key stakeholders.	Identifies technical accounting issues and ensures there is consultation with stakeholders at an early stage.
Adopts good financial reporting practices throughout the year.	

Source: Australian National Audit Office, 'Public Sector Financial Statements: High quality reporting through good governance and processes'.

An audit, risk and improvement committee can support councils' financial management

Recommendation

Councils can improve the quality of financial reporting by involving an audit, risk and improvement committee in the review of financial statements.

Councils are not currently required to have an audit, risk and improvement committee and consequently 53 councils do not have an audit committee. Changes to the *Local Government Act 1993* made by the *Local Government Amendment (Governance and Planning) Act 2016* will require councils to establish an audit, risk and improvement committee (ARIC). This is expected to be a requirement by March 2021.

Of the 85 councils (60 per cent) that already have an ARIC in some form, only 45 per cent reviewed financial statements before they were submitted for external audit.

Councils can make better use of the ARIC, where it does exist, to oversee the council's financial information including the process to prepare the annual financial statements. The ARIC can support quality financial reporting by:

- ensuring key risk areas (such as asset revaluations) have been addressed
- tracking the resolution of audit findings from prior years
- confirming that key estimates and judgements in financial statements are reasonable
- recommending to the council whether the financial statements are appropriate to sign.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Financial reporting

Office of Local Government guidance

The Office of Local Government needs to release key guidance documents earlier

Recommendation

The Office of Local Government should release the Local Government Code of Accounting Practice and Financial Reporting and the End of Year Financial Reporting Circular earlier in the audit cycle, ideally by 30 April each year.

The Office of Local Government (OLG) released two key documents to guide councils in preparing their 2016–17 financial statements:

- June 2017: Local Government Code of Accounting Practice and Financial Reporting (the Code)
- September 2017: End of year financial reporting 2016–17 Circular.

This timing meant there was limited scope for councils to apply the guidance in these documents when preparing financial statements by the statutory deadline of 31 October 2017. This also reduced the capacity of councils to resolve financial reporting, audit and compliance issues.

The Office of Local Government released the Code for the 2017-18 financial reporting year on 18 April 2018.

Local Government Code of Accounting Practice should align with Australian Accounting Standards

Recommendation

The Local Government Code of Accounting Practice and Financial Reporting should align with Australian Accounting Standards.

The Office of Local Government's Code of Accounting Practice and Financial Reporting (Code) sets the financial reporting requirements for councils. The Code requires councils to prepare financial statements in accordance with Australian Accounting Standards.

The Code applicable for 2016–17 financial reporting provided options and guidance that in some instances did not fully align with Australian Accounting Standards. For example, the Code:

- allowed councils the option to either recognise, or to not recognise rural fire-fighting equipment assets. This resulted in varying accounting practices across the sector and a significant portion of these assets not being reported in any government financial statements
- provided three methods for the valuation of land under roads and one of them did not specify that the restricted use of these assets needed to be considered as required by Australian Accounting Standards. This resulted in overstated asset values for this asset class for some councils.

2.2   Timeliness of financial reporting

Statutory deadlines

Councils had a statutory requirement to lodge their audited financial statements with OLG by 31 October 2017.

Seventy-one per cent of councils lodged audited financial statements by the statutory deadline

One hundred councils (71 per cent) met this requirement for the 2016–17 financial reporting period. However, of these, 71 councils submitted their audited financial statements to OLG during the last week of October 2017.

In many cases, councils provided multiple versions of the financial statements during the audit, including one council where 15 versions of the financial statements were presented for audit. This significantly delayed the audit and the lodgement of audited financial statements with OLG.

Under the *Local Government Act 1993*, a council may apply to OLG for an extension to the statutory reporting deadline. Forty councils received extensions for their 2016–17 financial statements including 16 newly amalgamated councils. These councils experienced challenges in harmonising accounting policies and practices and combining separate and distinct information technology and reporting systems.

Other reasons that councils put forward to support an extension were council resourcing issues and lack of financial records (particularly poor asset records). These issues had implications on audit resourcing and the timely completion of some audits by the Audit Office.

The graph below maps the lodgement dates of councils' financial statements.

Timeliness of financial reports lodgement with OLG

Note: No council(s) lodged audited financial statements with OLG in January 2018.

2.3 Early close procedures

Early close procedures help to improve the quality and timeliness of financial reporting

Recommendation

The Office of Local Government should introduce early close procedures with an emphasis on asset valuations.

Early close procedures are those done before the end of a financial year, usually at the end of a month, such as 30 April. These procedures help to improve the timeliness and quality of financial reporting. They can identify issues and key risk areas that councils need to resolve before the year-end process. The table provides examples of early close procedures.

Asset valuation issues affected the quality of many councils' 2016–17 financial statements and were the reason for two modified (qualified) audit opinions and the majority of high risk and significant matters reported.

Preparing proforma financial statements at an early close date is a good test of a council's processes and controls.

The audit, risk and improvement committee could support the early close process by ensuring that audit findings are addressed before the year-end financial statements are prepared.

Early close procedures

✓ Complete infrastructure, property plant and equipment valuations.

✓ Prepare proforma financial statements and associated disclosures.

✓ Prepare variance analysis and meaningful explanations for movements in financial balances.

✓ Perform key account reconciliations.

✓ Assess the impact of material, complex and one-off significant transactions.

✓ Explain any unresolved prior year audit issues including the proposed action plan to resolve them.

✓ Assess the impact of new and revised accounting standards effective in the current and future years.

✓ Review of financial statements and processes by management and the audit, risk and improvement committee.

Financial performance and sustainability

3. Financial performance and sustainability

Strong and sustainable financial performance provides the platform for councils to deliver services and respond to the needs of their community. This chapter outlines our audit observations on the performance of councils against the Office of Local Government's (OLG) performance indicators, grouped in three areas:

- operating revenue performance measures
- liquidity and working capital performance measures
- asset management performance measures.

Our analysis indicates that some councils face challenges in meeting these performance and sustainability measures.

Observation	Conclusions
3.1 Operating revenue performance measures	
Operating performance	
Operating expenses for 18 councils exceeded their operating revenue.	It is important that councils have financial management strategies that support their financial sustainability and ability to meet OLG's operating performance benchmark over the long term.
Another 20 councils would not have met OLG's operating performance benchmark without the receipt of 2017–18 financial assistance grants which was recorded as revenue during 2016–17.	
Eleven councils have not met OLG's operating performance benchmark for the last three years.	
Operating performance measures how well councils contain operating expenses within operating revenue. OLG has prescribed a benchmark of greater than zero.	
Own source operating revenue	
Fifty-nine councils did not meet OLG's benchmark, and 42 of those were rural councils.	Rural councils have high-value infrastructure assets that cover large areas with smaller populations and less capacity to raise revenue from alternative sources compared with metropolitan councils.
Own source operating revenue measures a council's fiscal flexibility and the degree to which it can generate revenue from own sources compared with total revenue from all sources. OLG has prescribed a benchmark of more than 60 per cent of total revenue.	

Observation	Conclusions

3.2 Liquidity and working capital performance measures

Unrestricted current ratio

All but three councils met OLG's benchmark.

The unrestricted current ratio represents a council's ability to meet its short-term obligations as they fall due. OLG has prescribed a benchmark of greater than 1.5 times.

Most councils can meet short-term obligations as they fall due.

Debt service cover ratio

All but two councils met OLG's benchmark. These two councils did not meet OLG's benchmark due to the early repayment of borrowings.

Regional councils have 56 per cent of the value of all borrowings in the sector.

The debt service cover ratio measures the operating cash available to service debt including interest, principal and lease payments. OLG has prescribed a benchmark of greater than two times.

Most councils have sufficient operating cash available to service their borrowings.

Regional councils borrow more heavily than metropolitan councils to deliver water and sewerage infrastructure. Metropolitan councils do not have the responsibility to provide water and sewerage infrastructure.

Rates and annual charges outstanding

Eight rural, five regional, three metropolitan and two county councils did not meet OLG's benchmark.

These councils also did not meet the infrastructure backlog ratio.

The rates and annual charges outstanding measure assesses the impact of uncollected rates and annual charges on a council's liquidity and the adequacy of debt recovery efforts. OLG has prescribed a benchmark of less than five per cent for metropolitan and less than ten per cent for other councils.

Most councils are collecting rates and annual charges levied. Councils with higher levels of uncollected rates and charges can experience increased pressure on the working capital available to fund operations.

Cash expense cover ratio

Three rural and two county councils did not meet OLG's benchmark.

The cash expense cover ratio indicates the number of months a council can continue paying its expenses without additional cash inflows. OLG has prescribed a benchmark of greater than three months.

This measure does not exclude externally and internally restricted funds. If externally restricted funds are excluded, all councils would still meet OLG's benchmark. If both externally and internally restricted funds are excluded:

- an additional 32 councils would have a cash expense cover ratio of less than three months
- a further nine councils are left without any unrestricted funds for general operations.

Most councils have the capacity to cover more than three months of operating expenses.

Councils with a higher proportion of restricted funds may have less flexibility to pay operational expenses than the cash expense cover ratio suggests. However, councils can resolve to lift internal restriction if required.

Observation	Conclusions

3.3 Asset management performance measures (not audited)

Building and infrastructure renewals ratio

Seventy councils reported to OLG they do not meet the benchmark for this ratio.

Most councils included expenditure related to work-in-progress in calculating this ratio. OLG are of the view that work-in-progress should be excluded and as a result identified that a further 23 councils do not meet the benchmark.

The building and infrastructure renewals ratio represents the rate at which assets are being renewed relative to the rate at which they are depreciating. OLG has prescribed a benchmark of greater than 100 per cent.

These councils appear to not be renewing assets in line with the rate they are depreciating them. This raises questions as to whether council asset management plans are adequate to determine whether assets are being kept up to agreed standards.

Uncertainty on the inclusion of work-in-progress assets does need to be is clarified in order to ensure consistency in determining whether councils are adequately renewing their assets.

Infrastructure backlog ratio

Eighty-four councils reported to OLG that they do not meet the benchmark for this ratio.

The infrastructure backlog ratio represents the proportion of infrastructure backlog relative to the total net book value of a council's infrastructure assets. OLG has prescribed a benchmark of less than two per cent.

These councils may not be maintaining their infrastructure backlog at a manageable level.

Asset maintenance ratio

Seventy-one councils reported to OLG they do not meet the benchmark for this ratio.

The asset maintenance ratio represents the rate at which assets are being maintained relative to the rate at which they are required to be maintained. OLG has prescribed a benchmark of greater than 100 per cent.

These councils' maintenance expenditure may be insufficient to sustain their assets in a functional state so they reach their predicted useful life.

Cost to bring assets to agreed service level

One-hundred and two councils reported results against this indicator to OLG. The reported results ranged from 0.1 per cent to 19.8 per cent.

This ratio represents the estimated cost to renew or rehabilitate existing infrastructure assets that have reached the condition-based interval level adopted by a council, relative to the gross replacement cost of all infrastructure assets. OLG has not prescribed a benchmark for this performance measure.

There is variability between councils in the amount of outstanding renewal works to be completed.

OLG's benchmarks for financial performance and sustainability

Each local council has unique characteristics such as its size, location and services provided to their communities. These differences affect the nature of each council's assets and liabilities, revenue and expenses, and in turn the financial performance measures against which it reports.

The Office of Local Government prescribes performance indicators for council reporting

The analysis in this chapter is based on performance measures prescribed in OLG's Code of Accounting Practice and Financial Reporting (the Code). Councils report against these measures in their annual report, which includes the audited financial statements and other unaudited information. In the audited financial statements, councils report performance against six financial sustainability measures:

- operating performance
- own source operating revenue
- unrestricted current ratio
- debt service cover ratio
- rates and annual charges outstanding percentage
- cash expense cover ratio.

Councils also include the unaudited Special Schedule 7 'Report on Infrastructure Assets' in their annual reports. In this schedule, councils report to OLG on performance against four further measures:

- building and infrastructure renewals ratio
- infrastructure backlog ratio
- asset maintenance ratio
- cost to bring assets to agreed service level.

Each audited measure and three of the four unaudited measures has a prescribed benchmark. OLG's benchmarks are the same for metropolitan, regional, rural and county councils, with the exception of the rates and annual charges outstanding percentage. Regional, rural and county councils have a different benchmark to metropolitan councils for this measure.

Three rural councils did not meet three of the audited OLG benchmarks

Most councils met OLG's benchmarks for at least five or all of the six audited performance measures. Eight rural, four regional, four metropolitan and two county councils did not meet OLG's benchmarks for two out of the six audited performance measures. Three rural councils did not meet OLG's benchmarks for three out of the six audited performance measures.

The following table summarises how the councils performed across the six audited performance measures.

Number of OLG benchmarks met by councils	Number of councils			
	Metropolitan	Regional	Rural	County
6	12	12	29	5
5	17	21	17	5
4	4	4	8	2
3	--	--	3	--
Not available*	1	--	--	--
Total	34	37	57	12

* The financial statements for Bayside Council are not yet presented for audit.
Source: Audited Financial Statements for 2016–17.

Appendix ten lists the performance of each council against all performance measures.

3.1   Operating revenue performance measures

The first pair of performance indicators relate to the revenue that councils raise to deliver services:

- operating performance
- own source operating revenue.

Operating performance measures how well councils keep operating expenses within operating revenue. Own source operating revenue measures the degree to which a council can generate its own source revenue compared with the total revenue from all sources.

Operating performance

Operating revenue in this measure includes rates and annual charges, user charges and fees, interest, investment and other revenue. It excludes capital grants, capital contributions and changes in the fair value of assets.

OLG sets a benchmark of greater than zero per cent for this measure. Achieving this benchmark means councils are raising enough operating revenue to fund their operating expenses.
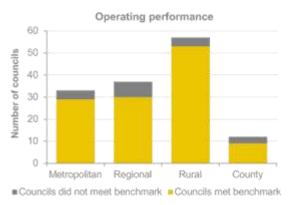
This measure assesses performance annually, so the result can be affected by short-term or one-off events and transactions, such as the profit or loss on disposal of assets and the cost of natural disasters.

Eighteen councils reported negative operating performance

Seven regional, four metropolitan, four rural and three county councils reported negative operating performance in 2016–17.

Of these 18 councils:

- five regional, two metropolitan, two rural and two county councils had reported a negative operating performance for the past three years
- fourteen councils also did not meet the infrastructure backlog ratio and twelve councils also did not meet the buildings and infrastructure renewals ratio.

Operating performance

Source: Audited financial statements for 2016–17.

Councils need to have financial management strategies that support their financial sustainability and meeting OLG's operating performance benchmark over the long term.

Five councils reported a net operating deficit

Yass Valley Council

In Chapter 2 Financial Reporting, we note that the audit opinion issued on the Yass Valley Council's 2016–17 financial statements was modified because Yass Valley Council did not record the receipt of financial assistance grants from the Australian Government as revenue in the year received, as required by Australian Accounting Standards.

The application of Australian Accounting Standards and the Code, with additional disclosure when appropriate, is necessary for financial statements to be presented fairly.

This resulted in an understatement of the net operating result for the year ended 30 June 2017 by $1.48 million and overstatement of a liability recorded as 'income received in advance' by the same amount. It also affected the OLG indicators reported in the Council's financial statements.

In our audit report, we recalculated affected indicators and noted that if Council had correctly recognised this grant, its operating performance measure would have improved from negative 2.32 per cent to positive 2.48 per cent and met OLG's benchmark.

A council's net result is its operating surplus or deficit after expenses are deducted from revenue. The net result includes revenue from grants and contributions intended for capital purposes, but excludes the impact of extraordinary events such as amalgamations and boundary adjustments.

In 2016–17, one metropolitan, two regional and two county councils reported operating deficits. The remaining councils, including all rural councils, reported operating surpluses.

However, these results are affected by the timing of government grants. In 2016–17, councils received $365 million of 2017–18 financial assistance grants from the Australian Government, which was recorded as revenue during 2016–17, consistent with the requirements of Australian Accounting Standards.

A council's financial statements present fairly their financial position and performance when transactions are recorded in accordance with the requirements of Australian Accounting Standards and the Code.

This grant income, received in advance, helped the 2016–17 operating performance of councils that had a net result close to break-even. Without these advance grant payments, a further 20 councils (four metropolitan, six regional and ten rural councils) would have reported negative operating performance and not met OLG's benchmark.

Own source operating revenue

The second operating revenue measure helps to assess a council's fiscal flexibility and the degree to which it can generate own source revenue compared with the total revenue from all sources. The OLG benchmark is for own source operating revenue to be more than 60 per cent of total revenue.

This measure is sensitive to revenue from capital grants and developer contributions, and the percentage will fall where these revenue sources are significant.
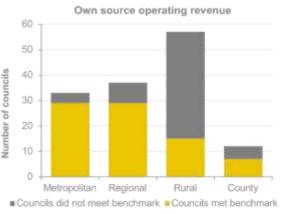
Rural councils face challenges generating own source revenue

In 2016–17, forty-two rural, eight regional, five county and four metropolitan councils did not meet OLG's benchmark for own source operating revenue. This may result in councils not generating enough operating revenue to cover operating expenses.

Rural councils report challenges in generating their own revenue from rates, annual charges, user charges and fees. This is because they can have smaller populations and rating bases and lower economic activity. This reduces their capacity to generate revenue from alternative sources such as parking fees, infringement notices and rental income.

Own source operating revenue

Councils did not meet benchmark Councils met benchmark

Source: Audited financial statements for 2016–17.

Seven of these 59 councils were also unable to meet the benchmark for OLG's performance measure for the collection of rates and annual charges, which is discussed later in the chapter. It is important for these councils to collect rates and annual charges on time given their challenges in generating this type of own source operating revenue.

Rural councils are responsible for maintaining infrastructure over large geographical areas. Thirteen of the 42 rural councils that did not meet OLG's benchmark for own source operating revenue also did not meet OLG's benchmarks for the buildings and infrastructure renewals ratio and infrastructure backlog ratio. These asset management performance measures are discussed later in this chapter.

Council revenue and expenses
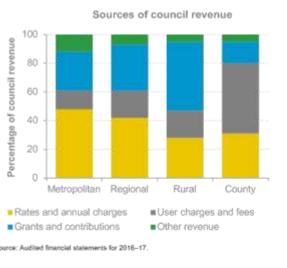
The following section details the main sources of council revenue, including special rate variations approved by the Independent Pricing and Regulatory Tribunal NSW, and the major categories of council expenditure. These are key drivers underlying several performance measures.

Revenue sources can vary significantly between councils

A council's total revenue comes from rates and annual charges, user charges and fees, operating and capital grants and contributions, and other revenue (such as interest, investments and asset disposals).

The graph illustrates the proportion of revenues from these sources for metropolitan, regional, rural and county councils.

Councils in metropolitan areas have the greatest capacity to generate other revenue, such as from childcare, parking fees, rental income and infringement notices. Rural councils rely more on grant funding to deliver their services.

Sources of council revenue

Rates and annual charges User charges and fees
Grants and contributions Other revenue

Source: Audited financial statements for 2016–17.

County councils do not receive rates but do levy annual charges. They receive the highest proportion of user charges and fees, which they use to provide services such as water supply, management of flood plains, and eradication of noxious weeds.

Forty councils received revenue from special rate variations

In 2016–17, the Independent Pricing and Regulatory Tribunal NSW (IPART) set the allowable percentage increase in a council's annual rates income (the rate peg) at 1.8 per cent. However, IPART can approve special rate variations above the rate peg for things such as:

- extra services
- capital expenditure
- financial sustainability
- infrastructure such as roads, bridges and stormwater drainage.

Forty councils received additional revenue from special rate variations in 2016–17. Seventeen regional, 12 rural and ten metropolitan councils received revenue from special rate variations, ranging from three per cent to 11 per cent of their rates revenue. One rural council received approval to levy a special rate of 30 per cent.
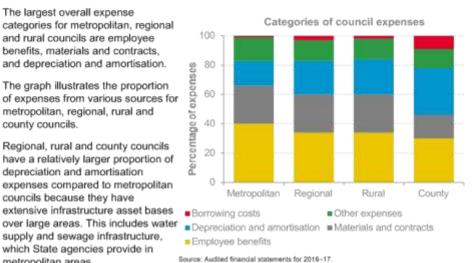
However, even with this extra revenue, four regional, one rural and one metropolitan council reported negative operating performance in 2016–17.

Employee benefits expense is the largest expense category for most councils

The largest overall expense categories for metropolitan, regional and rural councils are employee benefits, materials and contracts, and depreciation and amortisation.

The graph illustrates the proportion of expenses from various sources for metropolitan, regional, rural and county councils.

Regional, rural and county councils have a relatively larger proportion of depreciation and amortisation expenses compared to metropolitan councils because they have extensive infrastructure asset bases over large areas. This includes water supply and sewage infrastructure, which State agencies provide in metropolitan areas.

Categories of council expenses

Source: Audited financial statements for 2016–17.

3.2 Liquidity and working capital performance measures

The next group of indicators help to assess the way councils can:

- meet short term obligations
- service their debt
- collect outstanding rates and annual charges
- meet their future expenses.

Unrestricted current ratio
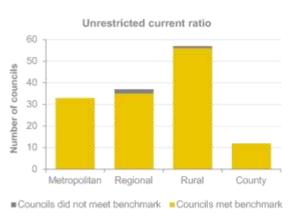
The unrestricted current ratio captures a council's ability to meet its short-term obligations as they fall due. The ratio excludes externally restricted assets and liabilities. OLG sets a benchmark of having available in unrestricted current assets more than 1.5 times the value of unrestricted current liabilities.

Two regional and one rural council did not meet OLG's benchmark for unrestricted current ratio.

The assets and liabilities of a council can fall into three categories:

- externally restricted
- internally restricted
- unrestricted.

Externally restricted assets are those affected by legislation or other externally imposed requirements. Internally restricted assets are affected by council resolution or policy, usually for an identified future works program. All other assets are unrestricted. Liabilities are restricted (specific purpose) if they relate to externally restricted assets.

Unrestricted current ratio

■ Councils did not meet benchmark   ■ Councils met benchmark

Source: Audited financial statements for 2016–17.

Ninety-six councils had twice OLG's minimum benchmark for working capital

Forty-six rural, 21 metropolitan, 19 regional and ten county councils reported an unrestricted current ratio exceeding twice the OLG benchmark.

Two regional and one rural council did not meet OLG's benchmark for the unrestricted current ratio. One of these regional councils also did not meet OLG's benchmark for the collection of rates and annual charges. To meet operational needs, councils with a low unrestricted current ratio may need to:

- consider the availability of borrowings
- seek the Minister for Local Government's approval to use externally restricted funds
- look at ways to reduce expenditure or seek extra revenue from other sources.

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Debt service cover ratio

One metropolitan and county council did not meet OLG's benchmark for the debt service cover ratio

The debt service cover ratio measures the operating cash available to service a council's debt, including interest, principal and lease payments. The benchmark OLG sets is to have available greater than twice the amount required to service debt.

The debt service cover ratio compares the operating result (before capital grants, capital contributions, depreciation and amortisation) with the repayment of borrowings and borrowing costs.

Fifty-seven rural, 37 regional, 27 metropolitan and five county councils reported borrowings at 30 June 2017. Councils utilise borrowings to fund capital projects and to address backlog maintenance. Regional councils accounted for 56 per cent of the value of total council borrowings because they also borrow to manage water and sewerage infrastructure.

One metropolitan and one county council did not meet this ratio as they repaid significant borrowings during 2016–17. One of these councils was newly amalgamated and the other was winding up.

Rates and annual charges outstanding percentage

The rates and annual charges outstanding percentage assesses how successful councils are in collecting rates and annual charges. The indicator measures the percentage of rates and annual charges levied throughout the year that remain unpaid as at 30 June.
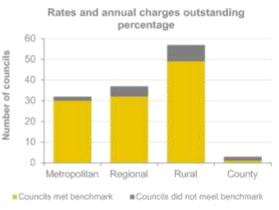
The OLG benchmark is that unpaid rates and annual charges for metropolitan councils should be less than five per cent and less than ten per cent for regional, rural and county councils.

Eighteen councils did not meet OLG's benchmark for outstanding rates and annual charges

Eight rural, five regional, three metropolitan and two county councils did not meet OLG's benchmark for the rates and annual charges outstanding percentage. Nine county councils do not levy rates and annual charges.

Councils with high levels of outstanding rates and annual charges may have less working capital available to fund operations. These eighteen councils also did not meet the infrastructure backlog ratio, which is discussed later in this chapter.

One rural council reported a rates and annual charges outstanding

Rates and annual charges outstanding percentage

Source: Audited financial statements for 2016–17.

percentage of 36 per cent. Its inability to collect rates and charges resulted in less cash available for operations. This council also reported a cash expense cover ratio of 1.6 months, which is short of OLG's benchmark of more than three months. Unpaid rates are a debt on property. In certain circumstances, councils can assume ownership of land to recover a debt.

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Cash expense cover ratio

The cash expense cover ratio estimates the number of months a council can continue paying its expenses without extra cash. It compares the total cash, cash equivalents and term deposit balances against the total payments for operating and financing activities from the cash flow statement. OLG sets a benchmark of greater than three months for this ratio.
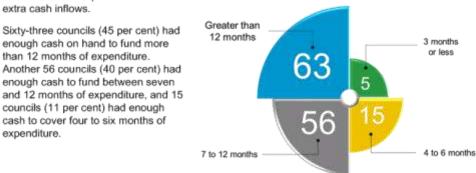
Most councils met the cash expense cover ratio benchmark of more than three months

All but three rural and two county councils were able to cover more than three months of expenditure without extra cash inflows.

Sixty-three councils (45 per cent) had enough cash on hand to fund more than 12 months of expenditure. Another 56 councils (40 per cent) had enough cash to fund between seven and 12 months of expenditure, and 15 councils (11 per cent) had enough cash to cover four to six months of expenditure.

Cash expense cover ratio

Greater than 12 months — **63**

3 months or less — **5**

7 to 12 months — **56**

4 to 6 months — **15**

Source: Audited financial statements for 2016–17.

Cash expense cover ratio is lower when restricted funds are excluded

Central Darling Shire Council

In Section 1.1 of Chapter 2 Financial Reporting, we note that the audit opinion issued on the 2016–17 general purpose financial statements of Central Darling Shire Council referred to uncertainty over the council's ability to continue operating without using restricted water and sewer funds. This council used externally restricted funds for daily operations without ministerial approval.

On 2 March 2018, the council's administrator sought approval from the Minister for Local Government to continue using restricted cash as necessary.

Councils are not required to exclude externally and internally restricted funds when calculating the cash expense cover ratio. Restricted and unrestricted funds are held in accounts that councils control.

Section 409(3) of the *Local Government Act 1993* does not permit the use of externally restricted funds for general operations. A council with a high proportion of restricted funds may have a positive cash expense cover ratio, but limited flexibility to pay its operating expenses.

Section 410(3) of the *Local Government Act 1993* requires a council to obtain the Minister for Local Government's approval before using externally restricted funds collected from levying special rates and charges for another purpose. A council must pass a resolution to use internally restricted funds for another purpose.

If externally restricted funds are excluded from the cash expense cover ratio, all councils would still meet OLG's benchmark. However, if both internally and externally restricted funds are excluded:

- six regional, one rural and two county councils are left without any unrestricted funds, meaning there are no available funds for general operations, such as to pay salaries and suppliers
- seventeen rural, nine regional, four metropolitan and two county councils would have a cash expense cover ratio of three months or less.

Of these councils, 18 did not meet OLG's benchmark for own source operating revenue.

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3.3   Asset management performance measures

The Office of Local Government (OLG) has prescribed four indicators to assess councils' asset management:

- buildings and infrastructure renewals ratio
- infrastructure backlog ratio
- asset maintenance ratio
- cost to bring assets to agreed service level.

Appendix ten lists the results of each indicator reported by councils to OLG.

Councils report to OLG against these indicators in the Special Schedule 7 'Report on Infrastructure Assets'. Special Schedule 7 is not required to be externally audited and does not form part of a council's independently audited financial statements. It provides information in addition to that available in the audited financial statements related to the maintenance, renewal, condition and costs of infrastructure assets. The Code requires that the information in Special Schedule 7 is consistent with the council's asset management plans.

Data reported against OLG's benchmarks is an indicator of whether councils' spending on renewing and maintaining their infrastructure assets is sufficient

Thirty-one councils reported they do not meet the OLG benchmarks for either the buildings and infrastructure renewals ratio, the infrastructure backlog ratio or the asset maintenance ratio. These councils may need to examine their asset management plans and consider if their investment in maintaining and renewing infrastructure assets is sufficient.

Councils are required to have asset management plans that consider community needs, available funds, the council's risk appetite, and the whole-of-life costs of owning and/or managing the infrastructure assets under their control.

The asset management indicators reported in Special Schedule 7 provide a snapshot of data at a point in time. While they may assist with further inquiry, a good or bad performance conclusion cannot be drawn from this data alone.

Buildings and infrastructure renewals ratio

Seventy councils do not meet OLG's buildings and infrastructure renewals ratio benchmark

The buildings and infrastructure renewals ratio is used to assess the rate at which infrastructure assets are being renewed against the rate at which they are depreciating. OLG sets a benchmark of greater than 100 per cent. The underlying information used to calculate this indicator is derived from a council's audited financial statements.

Achievement of the OLG benchmark indicates that a council is renewing its assets at the same rate it is depreciating them. Twenty-six rural, 24 regional, 16 metropolitan and four county councils reported to OLG they do not meet the prescribed benchmark for the buildings and infrastructure renewals ratio.

OLG's Code requires that the buildings and infrastructure renewals ratio is calculated based on a council's renewal expenditure on specific infrastructure assets listed in Special Schedule 7. OLG has informed the Audit Office that work-in-progress assets are not infrastructure assets for the purposes of reporting in Special Schedule 7. Eighty per cent of councils included work-in-progress assets in calculating the ratio. If work-in-progress assets are excluded from the calculation, a further 23 councils would not meet OLG's benchmark. This means that 93 councils, or 69 per cent of those that reported this indicator, did not meet the OLG benchmark for renewing their assets.

OLG will need to clarify the requirements for calculating the buildings and infrastructure renewals ratio with councils.

Infrastructure backlog ratio

Eighty-four councils do not meet OLG's infrastructure backlog ratio benchmark

The infrastructure backlog ratio shows the amount of infrastructure backlog expenditure relative to the total net book value of a council's infrastructure assets. OLG sets the benchmark for this ratio at less than two per cent. Achievement of the OLG benchmark indicates that infrastructure backlog is kept at a manageable level. The underlying information used to calculate this indicator is derived from a council's audited financial statements and other unaudited sources.

Infrastructure backlog is defined in Special Schedule 7 as the estimated cost to bring a council's infrastructure, buildings, other structures and depreciable land improvements back to a condition determined to be satisfactory by the council and the community.

Thirty-seven rural, 28 regional, 15 metropolitan and four county councils reported to OLG they do not meet the prescribed benchmark for the infrastructure backlog ratio. This means that 60 per cent of councils that reported this indicator did not meet OLG's benchmark for maintaining their infrastructure backlog.

Asset maintenance ratio

Seventy-one councils do not meet OLG's asset maintenance ratio benchmark

The asset maintenance ratio compares a council's actual asset maintenance expenditure to the amount planned in their asset management plans. OLG sets a benchmark of greater than 100 per cent. Achievement of the OLG benchmark indicates that a council is investing enough funds to sustain their assets in a functional state so they reach their predicted useful life. The underlying information used to calculate this indicator is derived from a council's unaudited asset management plans and other unaudited sources.

Twenty-nine rural, 26 regional, 13 metropolitan and three county councils reported to OLG that they do not meet the prescribed benchmark for the asset maintenance ratio. This means that 54 per cent of councils that reported this indicator did not maintain their assets in accordance with their asset management plans.

Cost to bring assets to agreed service level
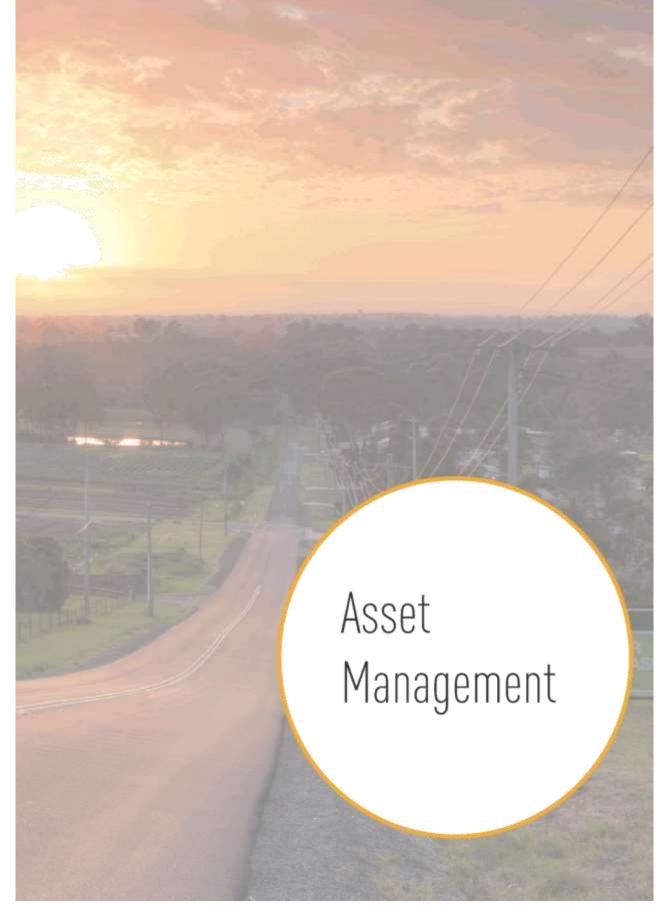
The cost to bring assets to agreed service level compares the estimated cost to renew or rehabilitate existing infrastructure assets, that have reached the condition-based intervention level adopted by a council, to the gross replacement cost of all infrastructure assets. OLG has not prescribed a benchmark for this indicator. The underlying information used to calculate this indicator is derived from unaudited sources.

One-hundred and two councils reported results against this indicator to OLG, expressed as a percentage. The reported results ranged from 0.1 per cent to 19.8 per cent. This reflects significant variability between councils in the proportion of outstanding renewal works compared to the total replacement cost of infrastructure assets under their care and stewardship.

Asset
Management

4. Asset management

NSW councils own and manage a significant range of assets, including infrastructure, property, plant and equipment with a total value of $136 billion.

Many of the issues that our local government audits identified related to asset management. This chapter discusses some of the asset accounting issues we found, focusing on five areas:

- overall asset management issues
- asset registers
- asset valuation
- recognition and asset useful life estimates
- asset policy and planning.

Observation	Conclusion or recommendation
4.1 High risk issues	
Significant matters reported to those charged with council governance	
Our 2016–17 audits identified ten high risk issues related to the accuracy of asset registers, restricted assets and asset revaluations.	High risk issues affect council's ability to maintain their assets in the condition required to deliver essential services.
4.2 Asset reporting	
Accuracy of asset registers	
Our audits identified instances where councils had multiple asset registers, inaccurate or incomplete registers, unreconciled registers, or uncontrolled manual spreadsheets.	Maintaining accurate asset records is important as it enables councils to manage their assets effectively and report on finances appropriately.
Unrecorded land and infrastructure assets	
Twenty-four councils had not recorded $145 million worth of assets, mainly land and infrastructure assets.	Assets not captured in council records is at risk of not being subject to their care and control, nor recorded in the financial statements.
Rural fire-fighting equipment	
At 30 June 2017, forty-six councils did report vested rural fire-fighting equipment in their financial statements. However, 62 councils did not record vested fire-fighting equipment in their financial statements. These rural fire-fighting equipment assets are not reported in either State government or local government financial statements.	**Recommendation** The Office of Local Government should address the different practices across the local government sector in accounting for rural fire-fighting equipment before 30 June 2018. In doing so, the Office of Local Government should work with NSW Treasury to ensure there is a whole-of-government approach.

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Observation	Conclusion or recommendation
4.3 Asset valuation	
Restricted assets	
Our audits found that ten councils did not appropriately consider restrictions on the use of community land and land under roads when determining asset fair values in accordance with Australian Accounting Standards.	The valuation of community land and land under roads should reflect the physical and legislative restrictions on these assets as required by Australian Accounting Standards. The impact of restrictions can be significant.
Nine councils corrected the land values in their 2016–17 financial statements, reducing the reported value of community land and land under roads by $12.1 billion.	Councils should consider engaging experts to assist with the determination of asset fair values, as necessary.
Asset revaluations	
Our audits found many cases where councils did not review valuation results, comply with applicable codes, or work effectively with valuers to obtain accurate asset valuations.	Valuing large infrastructure assets is a complex process. Councils would benefit if the process is started earlier and there is a clear plan to ensure valuations are appropriately managed and documented.
4.4 Asset useful life estimates	
Asset useful life estimates	
We found considerable variability in councils' useful lives for similar assets.	Depreciation is a significant expense for councils and therefore impacts on reported financial results and key performance indicators.
In some cases, the useful lives of assets are not reviewed annually or supported by regular condition assessment.	To comply with Australian Accounting Standards, councils need to reassess the useful lives of all assets annually.
	Regular condition assessments are essential to identify maintenance requirements and maintain service delivery.
4.5 Asset policy and planning	
Asset management strategy	
Thirteen councils do not have an asset management policy, strategy and plan, as required by OLG's Integrated Planning and Reporting Framework. Newly amalgamated councils have until 30 June 2018 to implement this.	An effective asset management strategy, policy and plan helps councils to manage their assets appropriately over their life cycle and to make informed decisions on the allocation of resources.

Assets overview

NSW councils own and manage a significant range of assets, including infrastructure, property, plant and equipment.

At 30 June 2017, the combined carrying value of NSW council assets was as follows.

Bulk earthworks
$10 billion

Land
$33 billion

Roads
$37 billion

Total Assets
$136 billion

Bridges
$3 billion

Footpaths
$3 billion

Recreational
$2 billion

Buildings
$12 billion

Water
$30 billion

Other
$3 billion

Plant and equipment
$1 billion

Capital works in progress
$2 billion

Source: Audited financial statements for 2016–17.

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4.1   High risk issues

Significant matters reported to those charged with council governance

We reported ten high risk asset management issues

Our audits identified ten high risk issues related to asset practices.

Risk rating	10	153	55

■ High risk   ■ Moderate risk   ■ Low risk

Councils should address high risk issues as a priority because they can affect their ability to maintain their assets in the condition required to deliver essential services.

The high risk issues were in three areas:

- accuracy of asset registers
- restricted assets
- asset revaluations.

This chapter also discusses the need to strengthen asset depreciation practices and asset management strategies.

4.2   Asset reporting

Accuracy of asset registers

Effective asset management calls for accurate records of the assets that councils control. Our audits found that council asset registers and systems need to improve. Councils should regularly update asset registers and reconcile them with asset management systems. Suitable controls must be in place to ensure the integrity of manual spreadsheets.

Councils should improve how they manage asset registers

Asset registers record key data on the infrastructure, property, plant and equipment that a council holds. Our 2016–17 audits found:

- twenty-two examples where manual spreadsheets stored asset data without any controls to protect their integrity (discussed further in chapter 6)
- sixteen cases of multiple fixed-asset registers with inconsistent content and formats
- nine instances of inaccurate and incomplete asset registers without supporting documents
- six examples of asset registers that do not, or are not, reconciled with the asset management system used for operational activities
- five instances of completed works-in-progress not capitalised as assets on a timely basis.

Three high risk issues related to councils where multiple fixed asset registers were not reconciled and incomplete. This resulted in numerous errors identified during the audits.

Multiple and decentralised asset registers limit council's ability to manage and maintain the asset base and report on finances accurately. Manual spreadsheets increase the risk of errors in more complex asset data.

Unrecorded land and infrastructure assets
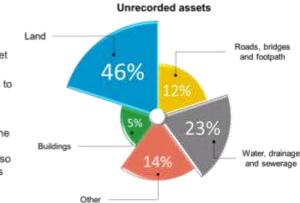
Councils had $145 million in unrecorded land and infrastructure assets

Our 2016–17 audits identified $145 million of unrecorded land and infrastructure assets at 24 councils. This is in addition to rural fire-fighting equipment not recorded by councils as discussed below.

The assets were mostly identified:

- during asset revaluations
- when reconciling asset registers and operational asset management systems
- during asset count processes to support the amalgamation of certain councils.

These assets are now recorded in the councils' 2016–17 financial statements. In eight councils, this also meant correcting the previous year's audited financial statements.

Unrecorded assets

Land 46%
Roads, bridges and footpath 12%
Water, drainage and sewerage 23%
Other 14%
Buildings 5%

Source: Audited financial statements for 2016–17.

Rural fire-fighting equipment

A significant portion of rural fire-fighting equipment is not reported in either State government or local government financial statements

Recommendation

The Office of Local Government should address the different practices across the local government sector in accounting for rural fire-fighting equipment before 30 June 2018.

In doing so, the Office of Local Government should work with NSW Treasury to ensure there is a whole-of-government approach.

The 2016–17 Local Government Code of Accounting Practice and Financial Reporting required that council financial statements are prepared in accordance with Australian Accounting Standards. Forty-six councils did record vested rural fire-fighting equipment in their 2016–17 financial statements. However, sixty-two councils did not record these assets and, consequently, they are not reported in the financial statements of the State government or the local government.

Rural fire-fighting equipment is vested in councils under the *Rural Fires Act 1997*. This includes buildings, vehicles and other equipment used in connection with the prevention or suppression of fire. Service agreements govern the way the NSW Rural Fire Service can use these assets for fire mitigation and safety works in a council area.

NSW Treasury and the NSW Rural Fire Service are of the view that the NSW Rural Fire Service does not control rural fight-fighting equipment vested in councils. The financial statements of the NSW Total State Sector and the NSW Rural Fire Service do not include these assets.

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The following factors suggest that councils control rural fire-fighting equipment:

- councils have responsibilities for fire mitigation and safety works in their area
- assets are vested in councils giving them legal ownership and title
- a council allows the NSW Rural Fire Service the use and occupancy of these assets within its council area through a service agreement
- councils are responsible for maintenance and insurance of the assets, although insurance of the vested vehicles is managed by the NSW Rural Fire Service.

4.3   Asset valuation

Seven high risk matters related to asset valuations, including two that resulted in qualified audit opinions

While having accurate asset registers is important, councils must also review the carrying value of their assets regularly so they reflect fair value.

Valuing large infrastructure assets is a complex process that needs to be well planned, managed and documented. The process should commence early in the financial year and, where used, instructions to external valuers need to clearly define the scope of work.

We found that councils need to improve their processes and controls over asset revaluations. Where experts are engaged, council management need to critically review the results to ensure they are robust.

The Office of Local Government (OLG) requires that councils comprehensively revalue each asset class on a five-year cycle. For those asset classes not subject to a comprehensive revaluation in a given year, councils must still satisfy themselves that asset values materially reflect fair value at the reporting date.

Restricted assets

Valuation methods need to consider restrictions that may affect asset values

At 30 June 2017, councils owned and managed $33.5 billion worth of land, including $17.8 billion (53 per cent) of community land and $4.1 billion (12 per cent) of land under roads.

OLG's Local Government Code of Accounting Practice and Financial Reporting (Code) sets the financial reporting requirements for councils. The Code requires councils to report assets, such as land under roads and community land, at 'fair value'.

The Hills Shire Council

The method used by the Hills Shire Council to value land under roads did not appropriately reflect restrictions on the use of this land as required by Australian Accounting Standards.

This resulted in a modified (qualified) audit opinion on its 2016–17 financial statements.

Australian Accounting Standards define 'fair value' as the current exit price to sell or transfer an asset. They require that 'fair value' measurement considers an asset's characteristics, including its condition, location and any restrictions on its sale or use. Such restrictions may be imposed by legislation, regulation or planning instrument.

Most council community land is subject to legislative zoning restrictions though a Local Environment Plan. Land under public roadways is subject to physical restrictions and legislative restrictions under the Roads Act 1993. Councils cannot lift these restrictions without the approval of external bodies.

Our 2016–17 audits found ten councils where the 2015–16 audited financial statements had overstated the value of land assets because the valuation of community land and land under roads did not reflect the physical and legislative restrictions on these assets. Of these, nine corrected the land values in their 2016–17 financial statements.

As a result, the reported value of community land and land under roads at these nine councils reduced by $12.1 billion from the previous years' audited financial statements. Over 90 per cent of

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the reduction occurred in metropolitan councils, where the value of community land decreased by $7.8 billion and land under roads decreased by $3.5 billion.

Asset revaluations

Asset valuation processes can improve

Councils should have effective controls and procedures to support their asset valuations. Our 2016–17 audits found:

- twelve instances where council management did not sufficiently review valuation results, requiring adjustments in the financial statements

- seven cases where councils did not comprehensively revalue assets in line with the five-year cycle set by the Local Government Code of Accounting Practice and Financial Reporting

> **Junee Shire Council**
>
> Junee Shire Council could not demonstrate that roads, bridges, footpaths and bulk earthworks were reported at fair value, as it did not value these asset classes during the year. The last valuation was conducted in 2012.
>
> This led to a modified audit opinion on its 2016–17 financial statements.

- five examples where council management did not agree on the scope and method of the required valuation with the external valuer before work was completed

- four instances where councils gave the valuer incomplete asset records, resulting in some assets being excluded

- four cases where there were no policies and procedures to support asset valuation processes

- four instances where the revaluation process did not start early enough to update the asset register and general ledger in time for year-end financial reporting

- four examples where supporting papers did not give enough detail of management's accounting treatments, judgements and assumptions underlying asset valuation.

4.4 Asset useful life estimates

The useful lives of road assets vary across councils

The useful life of an asset is the length of time it should be available for use. The remaining useful life is the period remaining that a council intends to use an asset, largely influenced by its physical condition. The useful life estimates determine the amount of depreciation expense reported in councils' financial statements.

Our audits reviewed the range of useful lives that councils reported for roads. We found considerable variability in the way councils reported the useful lives of similar road assets.

Sealed roads: Surface

Metropolitan Councils - from 19 to 41 years

Regional Councils - from 16 to 40 years

Rural Councils - from 19 to 28 years

Sealed roads: Structure

Metropolitan Councils - from 97 to 116 years

Regional Councils - from 45 to 192 years

Rural Councils - from 104 to 141 years

Unsealed roads

Metropolitan Councils - approximately 12 years

Regional Councils - from 19 to 88 years

Rural Councils - from 25 to 63 years

Source: Audited financial statements for 2016–17.

Some variability in the useful lives of roads can be expected due to different soil types, methods of construction, geography and the environment. However, these differences do not fully explain the large variation in the useful lives of similar assets across councils. This variability impacts the depreciation expense calculated by councils for similar assets and reported in the financial statements. This in turn may affect the key sustainability indicators that councils report.

Useful lives of assets need to be reviewed annually considering condition assessments

Australian Accounting Standards require that councils reassess the useful lives of all assets annually. Our 2016–17 audits identified six instances where there was no annual review of assets' remaining useful lives or regular condition assessment of assets. In three instances, the useful lives of assets were not adjusted to align with the physical condition assessments.

4.5 Asset policy and planning

Effective asset management should be tied together by an effective policy and planning processes. This helps to mitigate risk, support decision-making and ensure that councils manage assets efficiently and effectively over their life cycle. It also helps councils to determine future funding needs in maintaining, renewing and extending their asset base.

Asset management strategy

Thirteen councils do not have an asset management strategy, policy and plan

In 2013, OLG released an Integrated Planning and Reporting Framework (IP&R framework). This helps councils to integrate its plans and policies and align them with its strategic goals.

A key element of the IP&R framework is that all councils have an integrated asset management strategy, policy and plan. Newly amalgamated councils have until 30 June 2018 to finalise these.

Thirteen councils do not have the required asset management strategy, policy and plan. Eleven of these are regional and rural councils.

Governance and Internal Controls

5. Governance and internal controls

Good governance systems help councils to operate effectively and comply with relevant laws and standards. Internal controls assist councils to operate reliably and produce effective financial statements.

This chapter highlights the high risk issues we found and reports on a range of governance and control areas. Governance and control issues relating to asset management and information technology are covered in separate chapters.

Observation	Conclusion or recommendation
5.1 High risk issues	
Significant matters reported to those charged with council governance	
Our 2016–17 audits identified 36 high risk governance and internal control deficiencies across 17 councils. We reported: • seventeen high risk issues relating to governance, purchase-to-pay, financial accounting and payroll processes • ten high risk issues relating to asset practices • nine high risk issues related to information technology management.	Asset practices accounted for the highest number of high risk issues and information technology accounted for the largest overall number of control deficiencies. These matters are covered in chapters four and six respectively. High risk issues affect council's ability to achieve their objectives and increase the risk of fraud and error.
5.2 Governance	
Audit committees	
Councils are currently not required to have an audit, risk and improvement committee. Consequently, 53 councils do not have an audit committee.	Proposed legislative changes will require councils to establish an audit, risk and improvement committee by March 2021. **Recommendation** Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee.
Internal audit	
Councils are currently not required to have an internal audit function. Consequently, 52 councils do not have this function.	**Recommendation** The Office of Local Government should introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.
Council entities	
The Office of Local Government's register of entities approved under section 358 of the *Local Government Act 1993* is incomplete.	**Recommendation** The Office of Local Government should maintain an accurate register of council entities approved under section 358 of the *Local Government Act 1993.*
The *Local Government Act 1993* does not stipulate a financial reporting framework for council entities.	**Recommendation** The Office of Local Government should establish a financial reporting framework for council entities.

Observation	Conclusion or recommendation
Policies and procedures	
We identified 50 high and moderate risk issues across 33 councils where policies and procedures over critical business processes did not exist or had not been updated.	It is important there are current policies, standards and guidelines available to staff and contractors across all critical business processes.
Legislative compliance frameworks	
Our audits found that 45 councils do not have sufficient processes to show they are complying with legislative requirements.	Councils can improve practices in monitoring compliance with key laws and regulations. This includes implementing a legislative compliance framework, register and policy.
Risk management	
We identified 15 high and moderate risk issues across 15 councils where risk management practices could be strengthened.	Council risk management practices are enhanced when there is a fit-for-purpose risk management framework, register and policy to outline how risks are identified, managed and monitored.

5.3 Internal controls

Financial accounting	
We identified 45 high and moderate risk control deficiencies across 41 councils concerning the use of manual journals to adjust council financial records. This can increase the risk of fraud and error.	Sound financial accounting processes include controls to ensure:
We identified 51 high and moderate risk issues across 39 councils where reconciliation processes need to improve to support the preparation of accurate financial statements.	• a person other than the preparer authorises manual journals • key account reconciliations are prepared and reviewed.
Purchasing and payables	
We found 102 high and moderate risk deficiencies in purchasing and payable controls across 64 councils. Sound purchasing controls are important to minimise error, unauthorised purchases, fraud and waste.	As councils spend a substantial amount each year to procure goods and services, strong controls over purchasing and payment practices are critical. These include:
	• a review of changes to vendor master file data by an appropriate independent officer • an independent review and approval of purchases, including credit card transactions • compliance with Tendering Guidelines for NSW Local Government.
Payroll	
We identified 71 high and moderate risk deficiencies in payroll controls across 48 councils. Weaknesses in payroll controls could result in incorrect payments being made to employees, due to error or fraud.	Effective payroll controls are important because employee expenses represent a large portion of council expenditure. These controls include segregation of duties in the review of payroll master file data, timesheets, leave forms, payroll exception reports and termination payments.
Managing excess annual leave balances was a challenge for 32 councils.	Excessive annual leave balances can have implications on employee costs, disrupts service delivery and affect work, health and safety. Excess annual leave balances should be continuously monitored and managed.
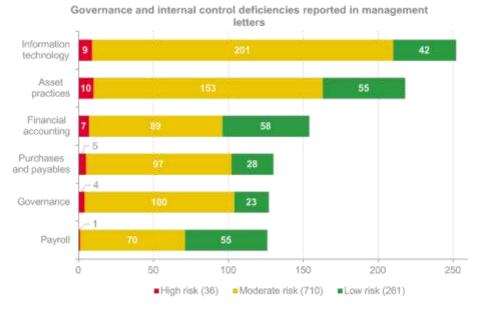
5.1 High risk issues

Significant matters reported to those charged with council governance

During our 2016–17 audits, we identified 36 high risk governance and internal control deficiencies.

Governance and internal control deficiencies reported in management letters

The high risk issues fell across six areas. We discuss four of these in this chapter and the remaining two in other chapters:

- information technology (see chapter 6)
- asset management (see chapter 4)
- governance
- purchasing and payables
- financial accounting
- payroll.

Councils should address high risk issues as a priority as these can increase the risk of fraud and error.

5.2 Governance

Governance refers to the frameworks, processes and behaviours that help a council achieve its objectives, comply with legislative and other requirements, and meet standards of probity, accountability and transparency.

Effective governance builds community confidence and enables the effective and efficient use of public resources. Governance models need to be fit for purpose and tailored to the needs of each council.

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In 2015, the Audit Office released its Governance Lighthouse to provide a best practice model of public sector governance for entities to follow. This covers eight principles and 17 key elements of good governance. Councils may find it useful to assess existing governance practices against the key principles in the lighthouse and address any gaps they find.

While this year's financial audit did not assess every aspect of governance in councils, this report highlights our findings and observations related to:

- audit committees and internal audit
- council entities
- policies and procedures
- legislative compliance frameworks
- risk-management.

Audit committees and internal audit

The combined benefit of an audit committee and internal audit function is that councillors can obtain general assurance that internal controls and risk management are working effectively. The 36 councils that do not have an audit committee and internal audit function are operating without important safeguards and generally accepted checks and balances.

Fifty-three councils have not established an audit, risk and improvement committee

Recommendation

Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee.

An effective audit, risk and improvement committee is an important part of good governance.

Councils are not currently required to have an audit, risk and improvement committee. At present, 53 councils do not have a functioning audit committee.

Changes outlined in section 428A of the *Local Government Amendment (Governance and Planning) Act 2016* will require councils to establish an audit, risk and improvement committee. This is expected to be a requirement by March 2021.

Council type	Number of councils with an audit, risk and improvement committee	Number of councils without an audit, risk and improvement committee	% without
Metropolitan	32	2	5.9
Regional	29	8	21.6
Rural	23	34	59.6
County	1	9	90.0
Total	**85**	**53**	**38.4**

Note: Mid-Coast and Southern Slopes county councils were dissolved on 1 July 2017. They have been excluded from the table.

Section 428B of the *Local Government Amendment (Governance and Planning) Act 2016* specifies that councils may jointly appoint an audit, risk and improvement committee to exercise functions for more than one council.

Fifty-two councils do not have an internal audit function

Recommendation

The Office of Local Government should introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.

Internal audit is another important element of an effective governance framework as it supports a risk and compliance culture. Internal audit provides assurance that a council's governance practices and internal control environment are effective, and identifies where performance can improve.

Councils are not currently required to have an internal audit function. As the following table shows, 33 rural councils, eight county councils, eight regional councils and three metropolitan councils do not have an internal audit function. Of these councils, nine are newly amalgamated.

Council type	Number of councils with an internal audit function	Number of councils without an internal audit function	% without
Metropolitan	31	3	8.8
Regional	29	8	21.6
Rural	24	33	57.9
County	2	8	80.0
Total	86	52	37.7

Note: Mid-Coast and Southern Slopes county councils were dissolved on 1 July 2017 and have therefore been excluded from the table.

There are 13 councils with an internal audit function but without an audit, risk and improvement committee. An effective audit committee would complement the internal audit function and provide it with a separate reporting line independent of management.

The Office of Local Government (OLG) has not updated the Internal Audit Guidelines it released in 2010. The OLG should, at a minimum, introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.

An internal audit function is mandatory for all State government agencies. A useful reference point for councils is available in TPP 15-03 Internal Audit and Risk Management Policy for the NSW Public Sector, issued by NSW Treasury.

Council entities

The Office of Local Government does not have complete information on council entities

Recommendation

The Office of Local Government should maintain an accurate register of entities approved under section 358 of the *Local Government Act 1993*.

Section 358 of the *Local Government Act 1993* (Act) specifies that councils must not form or participate in forming a corporation or other entity, or acquire a controlling interest in a corporation or other entity, except with the consent of the Minister for Local Government. These entities are referred to as 'council entities'.

Section 415 of the Act deals with auditing of the financial statements of council entities. The definition of a council entity in section 415 includes a wide and diverse range of bodies and is consistent with the definition of entities under section 358 of the Act. Our initial audit work identified 261 entities that met the definition of a council entity.

OLG maintains a register of entities where a council has sought approval from the Minister under section 358 of the Act. The register maintained by OLG was not complete and accurate. It also did not identify what entities had been approved by the Minister.

The legislation does not clarify the financial reporting obligations of council entities

Recommendation

The Office of Local Government should consider establishing a financial reporting framework for council entities.

We found uncertainty in the legislative framework governing the oversight of council entities[5] and their financial reporting and auditing requirements. This can result in a lack of transparency and accountability over the activities of council entities.

The *Local Government Act 1993* does not require council entities to keep records or prepare financial statements. Some council entities prepare financial statements, while others do not. The financial statements of some entities are audited, where others remain unaudited.

Given this uncertainty, we sought advice from the NSW Crown Solicitor about the Auditor-General's obligations under the Act. This confirmed that arrangements for council entities under the Act need clarification. Appendix 11 attaches this advice.

Policies and procedures

Formal policies and procedures support effective governance and internal control as they:

- provide direction for the day-to-day operations of a council
- promote consistency
- clarify accountability and other issues to staff and management
- support compliance with laws, regulations and codes.

Policies and procedures are not always in place or kept up to date

Councils need to ensure that policies, standards and guidelines are available to staff and contractors across all critical business processes, and that they are reviewed and updated regularly, including when significant changes occur.

Our financial audits did not review all council policies and procedures, but looked at whether policies and procedures for critical business processes exist and are updated. We found 73 cases across 47 councils where policies and procedures did not exist or had not been updated for:

- financial management
- information technology
- procurement
- contract management.

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[5] Section 358(4) of the *Local Government Act 1993* defines entity as 'any partnership, trust, joint venture, syndicate or other body (whether or not incorporated), but does not include any such entity that is of a class prescribed by the regulations as not being within this definition'.

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Of the 73 issues, two were high risk, 48 were moderate risk and 23 were rated low risk.

Risk rating	2	48	23

■High risk   ■Moderate risk   ■Low risk

The two high risk issues were:

- one council without any policies for numerous critical business processes, including payroll, purchases, property, plant and equipment and revenue
- one council with no IT strategic plan, disaster recovery plan, business continuity plan and only limited IT operating procedures.

Legislative compliance frameworks

Councils need to improve practices to comply with key laws and regulations

Our audits found 45 councils do not have a legislative compliance framework, which would include a compliance policy and compliance register. Without these, there is an increased risk that councils may breach legislative requirements. This can attract penalties, affect service delivery and cause significant reputational damage.

A compliance framework needs to be suited to the size of a council, but sufficient to help it comply with key legislative obligations. We reported this as a moderate risk at 43 councils and a low risk at two councils.

Risk rating	43	2

■Moderate risk   ■Low risk

Risk management

While our financial audits are not designed to assess every aspect of risk management, we did identify 20 instances in 17 councils where risk management practices could be strengthened. Two of these were high risk, 13 were moderate risk and five were low risk.

Risk rating	2	13	5

■High risk   ■Moderate risk   ■Low risk

Councils should address the high risk issues as a priority because they may affect their ability to achieve their objectives or comply with relevant legislation.

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The high risk issues related to:

- one council where high-rated risks were identified on the risk register but there was no indication of how the risks were being managed. In addition, roles and responsibilities for risk management were not clearly defined
- one council where fraud-related risks identified by management were not being addressed.

The remaining moderate and low risk issues related to the lack of, or out-dated, risk management frameworks, risk registers and/or policies and procedures. Of the 20 issues identified in risk management practices, 14 related to rural councils.

Councils may find it useful to assess their risk management practices using the Audit Office's Risk Maturity Toolkit. The toolkit is based on the principles and guidance of International Standards on Risk Management AS/NZS ISO 31000:2009 Risk Management and NSW Treasury Policy Guidelines TPP 12-03 and TPP 15-03. The risk management toolkit needs to be applied in a way that is fit for purpose, considering the size and complexity of each council.

5.3   Internal controls

Our financial audits focus on key internal controls that underpin the financial statements that councils prepare each year. Our audits assess whether key internal controls are designed, implemented and operating effectively to manage the risk of material error in the financial statements.

We report any control deficiencies we find to management and those charged with governance of a council through our audit management letters.

Financial accounting

The two main financial control weaknesses we found related to manual journals and reconciliations. A high proportion of these weaknesses were of moderate risk.

Councils can improve internal controls for manual journals

Staff use manual journals to make changes directly to the general ledger, which supports the preparation of council financial statements. Unlike IT controls, which are typically automated, most manual journals rely on human intervention and oversight. Using manual journal entries without appropriate controls and oversight can increase the risk of error and fraud.

Our audits found 51 cases in 43 councils where there were control weaknesses around manual journals. These included:

- manual journals not reviewed by an independent officer
- the finance system not preventing the same officer from posting and approving manual journals
- inadequate supporting documentation for manual journals posted
- staff with access to process manual journals beyond their job requirements.

Of the 51 cases, two were considered high risk, 43 of moderate risk and six low risk.

Risk rating	2	43	6

■ High risk   ■ Moderate risk   ■ Low risk

The high risk issues related to:

- one case where journals were posted to incorrect accounts and this had a significant impact on the financial statements. It could have been prevented if there was an appropriate review of the journals
- one case where journals could be posted without review by another officer. This was classified high risk, as fraud had been committed at this council in the past.

Councils should reconcile their accounts timely and review them independently

Councils need to improve processes in preparing and reviewing account reconciliations.

Council financial statements are based on information in the general ledger. Balances are often supported by information in subsidiary ledgers, such as for:

- accounts payable
- accounts receivable
- fixed assets
- payroll.

It is important that councils periodically reconcile the general ledger with these subsidiary ledgers to confirm that data is accurate and complete. Our audits found 103 deficiencies across 61 councils relating to key account reconciliations. Five were high-risk, 46 of moderate risk and 52 low risk.

Risk rating	5	46	52

■ High risk   ■ Moderate risk   ■ Low risk

The issues included:

- reconciliations not prepared for key account balances
- reconciliations not reviewed in a timely manner by an appropriate officer
- long-outstanding reconciling items remaining unresolved for long periods.

The deficiencies were assessed as high risk if they could significantly affect the councils' financial statements.

If key account reconciliations are not prepared and reviewed promptly, management's ability to identify and resolve issues is affected. That could result in misstatements in financial reporting.

Purchasing and payables

Councils purchase significant amounts of goods and services each year. In 2016–17, for example, councils collectively spent:

- $3.5 billion to acquire property, plant and equipment
- $3.9 billion on supplies, services and other general expenditure.

Seventy-six councils need to improve purchasing and payables controls

Sound controls for purchasing and payment functions are important to minimise the risk of unauthorised purchases, fraudulent activity and waste. For example, the report from the recent Independent Commission Against Corruption (ICAC) investigation into the conduct of employees at the former City of Botany Bay Council highlighted serious, systemic failures in procurement practices and internal controls. This led to financial loss and reputational damage.

Our audits identified 130 internal control weaknesses related to the purchasing and payables process across 76 councils. Five were high risk, 97 of moderate-risk, and 28 rated low risk.

The high risk issues related to:

- unauthorised expenditure, or expenditure approved by an officer without the necessary delegation
- non-compliance with Tendering Guidelines for NSW Local Government.

The moderate and low risk matters span these same issues but also included:

- purchase orders raised only after the goods or services were received and paid for
- reports designed to detect irregular or unusual changes that were not reviewed
- inadequate segregation of duties in the purchases and payables function
- inadequate review of credit card transactions and retention of supporting documents
- lack of review of changes to vendor master file data
- purchase orders not raised at all.

Payroll

Councils need to have effective payroll controls because employee expenses represent a large portion of their total expenditure. Weaknesses in payroll controls could result in incorrect payments to employees due to either error or fraud.

Seventy-two councils need to improve payroll controls

Our audits identified 126 internal control weaknesses related to payroll processes at 72 councils. One was assessed as high risk, 70 moderate risk and 55 rated low risk.

The high risk issue involved a council where payroll staff had unrestricted access to amend sensitive payroll data in the system. There were no mitigating controls as:

- system logs detailing changes to employee details were not generated
- exception reports which can be used to identify unusual changes in pay details were not reviewed by an officer independent of the payroll team.

Common issues from the remaining moderate and low risk deficiencies included:

- no review of changes to details in the payroll master file
- unapproved staff timesheets
- unapproved staff leave forms
- payroll exception reports not reviewed
- termination payments not reviewed.

Managing excess annual leave is a challenge for some councils

Under the Local Government Award, council employees should have less than eight weeks of annual leave accrued at any time.

We identified staff with annual leave balances greater than eight weeks at 32 councils.

There are several implications of excessive leave balances, including:

- higher employee costs in the future due to salary increases
- work, health and safety implications
- disruptions to service delivery when employees eventually take lengthy periods of leave
- employee fraud remaining undetected.

Information Technology

6. Information technology

Like most public sector agencies, councils increasingly rely on information technology (IT) to deliver services and manage sensitive information. While IT delivers considerable benefits, it also presents risks that councils need to address.

Our review of council IT systems focused on understanding the processes and controls that support the integrity, availability and security of the data used to prepare financial statements. This chapter outlines issues in three broad areas:

- high risk issues
- access to IT systems
- IT governance.

Observation	Conclusion
6.1 High risk issues	
Significant matters reported to those charged with council governance	
Our 2016–17 audits identified nine high risk IT control deficiencies across seven councils. The issues related to user access controls, privileged access controls and user developed applications.	High risk issues affect council's ability to achieve their objectives and increase the risk of fraud and error.
6.2 Access to IT systems	
User access controls	
We identified 107 issues across 56 councils where user access controls could be strengthened.	Inadequate IT policies and controls around user access, including privileged access, increases the risk of individuals having excessive or unauthorised access to critical financial systems and data.
Privileged access	
We identified 86 examples across 64 councils of inappropriate privileged access, inadequate review of access and insufficient retention and review of access logs.	
User developed applications	
User developed applications (UDAs) are computing applications, tools and processes developed or managed outside IT administration. UDAs may allow users to bypass formal user access controls. Our audits found 22 councils using spreadsheets for business operations, decision making and financial reporting that were not adequately secured, with changes that were not tracked, tested or reviewed. We also identified five councils where finance staff and senior management use database query tools to directly modify financial data, circumventing system-based business process controls.	It is important councils are aware of all circumstances they are relying on UDAs to limit the risk of errors and potential misuse. This allows councils to: - transition UDA functions to internal systems where possible - ensure UDAs are adequately controlled where they continue to use them - regularly review access rights to UDAs and back-up business-critical information.

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Observation	Conclusion
6.3 IT governance	

Strategy, policies and procedures

Around one in four councils do not have an IT strategy or operational plan. Some councils also need to develop or improve IT policies and procedures.

Sixty-six councils do not have an adequate information security policy.

IT governance is enhanced where there is:
- a fit-for-purpose IT strategy and operational plan
- appropriate policies, standards and guidelines across all critical IT processes
- a formally defined process to support security and access to all systems.

Disaster recovery and business continuity

Our audits identified that 17 councils do not have a documented plan to recover critical business functions in the event of a disaster.

The ability to restore data from backups is critical to ensure business continuity in the face of a system disaster.

We also found that 15 councils do not periodically test their ability to restore backups of data relevant to financial reporting.

Sound management of disaster recovery and business continuity includes:
- a documented plan for how critical business functions will be recovered in the event of a disaster, which is periodically reviewed and tested
- the ability to restore backed-up data, which is periodically tested.

We expect to focus on these areas in our future audits.

6.1 High risk issues

Our audits reported nine high risk information technology control issues in our audit management letters to councils.

Internal control deficiencies reported in management letters

Information technology	High risk	Moderate risk	Low risk
	9	201	42

■ High risk   ■ Moderate risk   ■ Low risk

Councils should address high risk issues as a priority as these can increase the risk of fraud and error. The high risk issues fell into three areas:

- user access controls
- privileged access controls
- user developed applications.

The chapter rounds out with some findings on IT governance.

6.2   Access to IT systems

User access controls

Access controls are informally documented and inconsistently applied

Our audit found that controls over user access at 38 councils were insufficient, or the councils could not provide evidence that their controls were operating effectively.

User access controls should ensure that individuals only have access to financial systems and data necessary to undertake their job responsibilities.

Councils need to have effective policies and procedures to create, modify and deactivate user access to minimise the risk of individuals having excessive or unauthorised access.

Our audits sought to confirm the effectiveness of user access administration over key financial systems against these principles. Where we found issues, these were mostly moderate rather than high risk because councils had mitigating controls in place.

Effective user access control involves the following good practice:

✔ Clear policies and procedures

✔ Formal approval to establish and modify user accounts

✔ Removal of access when no longer required

✔ Regular review of user access

✔ Password parameters in line with good practice

✔ Clear records of user access.

We identified staff at 35 councils with access to systems beyond what their job requires.

In three councils, the risks were high because there were only limited mitigating controls. In each case, we were required to perform extra audit procedures. These three councils have remediation plans in place, which we will review during our next audit.

We also found that 30 councils need to strengthen their password parameters for financial reporting systems.

Privileged access

Privileged access occurs when a person can change key system configurations and has wide access to system data, files and accounts. Our audits found examples of inappropriate privileged access, inadequate review and insufficient retention of access logs to monitor the activities of privileged system users.

To minimise the risk of individuals having inappropriate access to IT systems, councils need to strengthen their policies and procedures over privileged user access.

Staff and third-party contractors had unmonitored access to some council systems

Privileged access controls should follow the same good practice principles as general access controls discussed above. However, the impact of poor administration of privileged access controls can be greater than general access controls, because privileged access enables greater control over key IT systems.

Access to IT systems should be granted using the principle of 'least privilege'. This means that system users should only have the system access privileges needed to perform their job, and no-one should have ongoing access to highly privileged functions unless their job demands it.

Where individuals have privileged access, independent oversight should detect and rectify any inappropriate activity. Activity logs of users with privileged access should be reported to someone in a position of authority who is independent of the IT team.

Our audits found:

- IT staff, finance staff and senior management at 22 councils with inappropriate access to privileged finance applications and council data. They could bypass system-based controls or make direct changes to financial data
- fifty-six councils where there is no review of access and usage for users with highly privileged system access
- eleven councils where highly privileged generic user accounts were shared between staff and third-party contractors, limiting the effectiveness of any audit logs
- nine councils with no audit logs detailing the activity of privileged users
- two councils where audit logs were not reviewed or secured
- one council where IT staff could develop and implement changes to financial systems without any authorisation and oversight.

At five councils, these observations were high risk due to a combination of weaknesses. As a result, we were required to perform extra audit procedures to address the risk. These councils also have remediation plans in place, which we will review during our next audit.

Access controls over third-party service providers needs to be strengthened

Most councils rely on third-party service providers for IT administration support. This can be from the vendor of key council systems or an independent IT contractor. Councils need to ensure their existing risk management framework provides assurance for controls over IT outsourcing.

Our audits identified:

- nine councils where there were third parties with unrestricted and unmonitored access to council systems and data
- three councils that had cloud-based financial reporting systems where the council has no assurance that key controls at the service provider are operating effectively
- one council where there was significant reliance on the systems, knowledge and expertise of third parties with no plan should these services be withdrawn.

These examples presented a moderate risk given mitigating controls in place.

User developed applications

User developed applications (UDAs) are computing applications, tools and processes that are developed or managed outside IT administration. These pose extra risks because controls used by internal IT systems may be absent.

User developed applications allow users to bypass user access controls

Councils commonly use UDAs such as spreadsheets, databases and reporting tools in day-to-day operations. There may be internally developed workarounds when a vendor-supplied solution is absent or too expensive to implement.

Reasons why councils might use UDA tools include that they can:

- allow users to interact with council data directly and independently
- be developed cheaply and quickly compared to system enhancements that use a more traditional system development lifecycle.

At the same time, UDAs can pose significant risks. They can lack the traditional controls of a formally deployed business application, and often sit outside the defined control environment. Over time, their original purpose can be lost and their use and complexity can expand. This increases the risk of errors or intentional misuse.

Because of these risks, councils should consider migrating from UDAs to internal IT systems wherever possible. Where this is not feasible, they should implement mitigating controls such as:

- ensuring that UDAs are subject to the council's software development lifecycle requirements for specification, design, building, testing and maintenance
- reviewing and updating policies for user access controls and ensuring assigned access rights to UDAs are appropriate and periodically reviewed
- ensuring all business-critical UDAs are backed up regularly and their recoverability tested.

Our audits found:

- twenty-two councils where spreadsheets were used for business operations, decision making and financial reporting that were not adequately secured, with changes that were not tracked, tested or reviewed. Examples included the calculation of development application fees and depreciation
- five councils where finance staff and senior management had inappropriate access, using database query tools to directly modify financial data in database tables, circumventing system-based business process controls.

These observations were mostly classed as moderate risk as there were mitigating controls in place. However, it was a high risk issue at one council because of the importance of the data maintained in spreadsheets and the lack of access and version controls.

6.3   Information technology governance

IT governance refers to the strategies and frameworks, polices and processes that councils use to oversee and manage IT risks.

Strategy, policies and procedures

One in three councils do not have an IT strategy or operational plan

An IT strategy and an operational plan are important for achieving the best use of IT resources.

An IT strategy links technology use to the wider objectives of a council. It needs to be fit for purpose and take into account the size and complexity of a particular council.

An IT operational plan sets out the day-to-day tasks, time frames, responsibilities and resources needed to realise the goals of an IT strategy.

Thirty-one councils did not have an IT strategy or operational plan.

Effective IT governance is strengthened when:

✓ There is an IT strategy and operational plan in place that is fit for purpose and suits the size and complexity of the council

✓ Appropriate policies (such as an information security policy), standards and guidelines are available to staff and contractors across all critical IT processes. These are reviewed and updated periodically, including when significant system or process changes occur

✓ There are processes to consider, capture and monitor IT risks that would affect operations.

We also found that 16 councils had an IT operational plan but not an IT strategy. Without an IT strategy, there is a risk that IT investment is not aligned with council priorities. Some councils need to develop or improve IT policies and procedures.

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Clear and well-defined IT policies and procedures help organisations to implement their strategies and plans. Our audits found the following issues across 33 councils:

- twenty-four councils without formal IT policies and procedures over IT security, change management, disaster recovery and/or business continuity
- seventeen councils without a formal and defined process to appropriately support access management for financial reporting systems
- seventeen councils that need to strengthen existing policies and procedures for IT security, change management or disaster recovery
- two councils that had not reviewed or updated IT policies and procedures in several years.

Over half of councils do not have an information security policy

We identified that 66 councils do not have a formal information security policy. Without this, councils are likely to rely on the knowledge, risk appetite and diligence of individual staff to maintain the security of key IT systems. All councils should have a formally defined process to support the security of and access to all systems.

On 2 March 2018, the Audit Office tabled a performance audit report on 'Detecting and responding to cyber security incidents'. Cyber security incidents can harm government service delivery and may include theft of personal information, denial of access to critical technology, or even the hijacking of systems for profit or malicious intent. Recent global and national security incidents highlight the importance for councils to have systems and processes for detecting and responding effectively to security incidents.

Disaster recovery and business continuity

Councils can improve backup, disaster recovery and business continuity controls

The ability to restore data from valid backups is critical to ensure business continuity. Without it, councils may be unable to continue providing essential public services in the face of a system disaster.

Councils need to thoroughly assess their business systems and documented plan outlining how critical business functions will be recovered in the event of a disaster. Once plans are in place, they then need to be reviewed and tested regularly. The ability to restore backed-up data should also be periodically tested.

We found that 17 councils do not have a documented plan to recover from a disaster. We also found that 15 councils do not periodically test their ability to restore backups of data relevant to financial reporting.

Without these measures, there may not be a clear process to minimise the impact of a significant incident interrupting critical business functions to ensure the continued delivery of services.

We expect to focus on these areas in our future audits.

Appendices

Appendix one – Response from the Office of Local Government

NSW GOVERNMENT | **Office of Local Government**

5 O'Keefe Avenue NOWRA NSW 2541
Locked Bag 3015 NOWRA NSW 2541

Our Reference: A586791
Your Reference:
Contact: Performance Team
Phone: 02 4428 4100

Ms Margaret Crawford
Auditor-General of New South Wales
Audit Office of New South Wales
GPO Box 12
SYDNEY NSW 2001

Dear Ms Crawford

Thank you for your letter dated 23 March 2018 and for the opportunity to respond to your proposed Local Government 2017 report to Parliament.

The Office of Local Government welcomes the contribution from the Audit Office towards strengthening governance, financial management and reporting in the local government sector and notes your findings and recommendations.

We look forward to continuing work with the Audit Office in the future.

Yours sincerely

Tim Hurst
Acting Chief Executive
Office of Local Government
19/4/18

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix one – Response from the Office of Local Government

Appendix two – List of recommendations

The table below lists the recommendations made in this report.

Financial reporting

Quality of financial reporting

Councils can improve the quality of financial reporting by reviewing their financial statements close processes to identify areas for improvements.

Councils can improve the quality of financial reporting by involving an audit, risk and improvement committee in the review of financial statements.

The Office of Local Government should release the Local Government Code of Accounting Practice and Financial Reporting and the End of Year Financial Reporting Circular earlier in the audit cycle, ideally by 30 April each year.

The Local Government Code of Accounting Practice and Financial Reporting should align with Australian Accounting Standards.

Timeliness of financial reporting

The Office of Local Government should introduce early close procedures with an emphasis on asset valuations.

Asset management

Recognition and asset useful life estimates

The Office of Local Government should address the different practices across the local government sector in accounting for rural fire-fighting equipment before 30 June 2018. In doing so, the Office of Local Government should work with NSW Treasury to ensure there is a whole-of-government approach.

Governance and internal controls

Governance

Councils should early adopt the proposed requirement to establish an audit, risk and improvement committee.

The Office of Local Government should introduce the requirement for councils to establish internal audit functions and update its 2010 Internal Audit Guidelines.

The Office of Local Government should maintain an accurate register of entities approved under section 358 of the *Local Government Act 1993*.

The Office of Local Government should consider establishing a financial reporting framework for council entities.

Appendix three – Sources of information and council classifications

Sources of information

This report comments on the results of audits completed on the 2016–17 financial statements of 139 councils and two water authorities and the completed audits of eight councils' and three water authorities' 2015–16 financial statements. The audit of one council's 2016–17 financial statements is ongoing as the council received a lodgement extension from the Office of Local Government.

In addition to the audited financial statements, the comments and analysis in this report has been drawn from:

- data collected from councils
- audit findings reported to councils
- data from external sources, including population, kilometres of roads, and council area data from the Australian Bureau of Statistics and the Office of Local Government.

Council classifications

We adopted the following methodology when classifying councils in our report.

OLG classification	Audit Office grouping
Metropolitan	Metropolitan
Regional Town/City	Regional
Metropolitan Fringe	Metropolitan
Rural	Rural
Large Rural	Rural

Source: OLG classifications and Audit Office of New South Wales.

Below is a list of councils and county councils by classification.

Council classifications

Local councils	OLG classification	Classification in this report
Albury City Council	Regional Town/City	Regional
Armidale Regional Council	Regional Town/City	Regional
Ballina Shire Council	Regional Town/City	Regional
Balranald Shire Council	Rural	Rural
Bathurst Regional Council	Regional Town/City	Regional
Bayside Council	Metropolitan	Metropolitan
Bega Valley Shire Council	Regional Town/City	Regional
Bellingen Shire Council	Large Rural	Rural
Berrigan Shire Council	Large Rural	Rural
Blacktown City Council	Metropolitan	Metropolitan
Bland Shire Council	Large Rural	Rural
Blayney Shire Council	Large Rural	Rural
Blue Mountains City Council	Metropolitan Fringe	Metropolitan

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix three – Sources of information and council classifications

Local councils	OLG classification	Classification in this report
Bogan Shire Council	Rural	Rural
Bourke Shire Council	Rural	Rural
Brewarrina Shire Council	Rural	Rural
Broken Hill City Council	Regional Town/City	Regional
Burwood Council	Metropolitan	Metropolitan
Byron Shire Council	Regional Town/City	Regional
Cabonne Council	Large Rural	Rural
Camden Council	Metropolitan Fringe	Metropolitan
Campbelltown City Council	Metropolitan Fringe	Metropolitan
City of Canada Bay Council	Metropolitan	Metropolitan
Canterbury Bankstown Council	Metropolitan	Metropolitan
Carrathool Shire Council	Rural	Rural
Central Coast Council	Metropolitan Fringe	Metropolitan
Central Darling Shire Council	Rural	Rural
Cessnock City Council	Regional Town/City	Regional
Clarence Valley Council	Regional Town/City	Regional
Cobar Shire Council	Large Rural	Rural
Coffs Harbour City Council	Regional Town/City	Regional
Coolamon Shire Council	Rural	Rural
Coonamble Shire Council	Rural	Rural
Cootamundra-Gundagai Regional Council	Large Rural	Rural
Cowra Shire Council	Large Rural	Rural
Cumberland Council	Metropolitan	Metropolitan
Dubbo Regional Council	Regional Town/City	Regional
Dungog Shire Council	Large Rural	Rural
Edward River Council	Large Rural	Rural
Eurobodalla Shire Council	Regional Town/City	Regional
Fairfield City Council	Metropolitan	Metropolitan
Federation Council	Large Rural	Rural
Forbes Shire Council	Large Rural	Rural
Georges River Council	Metropolitan	Metropolitan
Gilgandra Shire Council	Rural	Rural
Glen Innes Severn Council	Large Rural	Rural
Goulburn Mulwaree Council	Regional Town/City	Regional
Greater Hume Shire Council	Large Rural	Rural
Griffith City Council	Regional Town/City	Regional
Gunnedah Shire Council	Large Rural	Rural
Gwydir Shire Council	Large Rural	Rural
Hawkesbury City Council	Metropolitan Fringe	Metropolitan

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix three – Sources of information and council classifications

Local councils	OLG classification	Classification in this report
Hay Shire Council	Rural	Rural
Hills Shire Council, The	Metropolitan Fringe	Metropolitan
Hilltops Council	Large Rural	Rural
Hornsby, The Council of the Shire of	Metropolitan Fringe	Metropolitan
Hunters Hill, The Council of the Municipality of	Metropolitan	Metropolitan
Inner West Council	Metropolitan	Metropolitan
Inverell Shire Council	Large Rural	Rural
Junee Shire Council	Large Rural	Rural
Kempsey Shire Council	Regional Town/City	Regional
Kiama, the Council of the Municipality of	Regional Town/City	Regional
Ku-ring-gai Council	Metropolitan	Metropolitan
Kyogle Council	Large Rural	Rural
Lachlan Shire Council	Large Rural	Rural
Lake Macquarie City Council	Regional Town/City	Regional
Lane Cove Municipal Council	Metropolitan	Metropolitan
Leeton Shire Council	Large Rural	Rural
Lismore City Council	Regional Town/City	Regional
Lithgow Council, City of	Regional Town/City	Regional
Liverpool City Council	Metropolitan	Metropolitan
Liverpool Plains Shire Council	Large Rural	Rural
Lockhart Shire Council	Rural	Rural
Maitland City Council	Regional Town/City	Regional
Mid-Coast Council	Regional Town/City	Regional
Mid-Western Regional Council	Regional Town/City	Regional
Moree Plains Shire Council	Large Rural	Rural
Mosman Municipal Council	Metropolitan	Metropolitan
Murray River Council	Large Rural	Rural
Murrumbidgee Council	Rural	Rural
Muswellbrook Shire Council	Large Rural	Rural
Nambucca Shire Council	Large Rural	Rural
Narrabri Shire Council	Large Rural	Rural
Narrandera Shire Council	Large Rural	Rural
Narromine Shire Council	Large Rural	Rural
Newcastle City Council	Regional Town/City	Regional
North Sydney Council	Metropolitan	Metropolitan
Northern Beaches Council	Metropolitan	Metropolitan
Oberon Council	Large Rural	Rural
Orange City Council	Regional Town/City	Regional

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix three – Sources of information and council classifications

Local councils	OLG classification	Classification in this report
Parkes Shire Council	Large Rural	Rural
Parramatta Council, City of	Metropolitan	Metropolitan
Penrith City Council	Metropolitan Fringe	Metropolitan
Port Macquarie-Hastings Council	Regional Town/City	Regional
Port Stephens Council	Regional Town/City	Regional
Queanbeyan-Palerang Regional Council	Regional Town/City	Regional
Randwick City Council	Metropolitan	Metropolitan
Richmond Valley Council	Regional Town/City	Regional
Ryde City Council	Metropolitan	Metropolitan
Shellharbour City Council	Regional Town/City	Regional
Shoalhaven City Council	Regional Town/City	Regional
Singleton Council	Regional Town/City	Regional
Snowy Monaro Regional Council	Regional Town/City	Regional
Snowy Valleys Council	Large Rural	Rural
Strathfield Municipal Council	Metropolitan	Metropolitan
Sutherland Shire Council	Metropolitan	Metropolitan
Sydney, Council of the City of	Metropolitan	Metropolitan
Tamworth Regional Council	Regional Town/City	Regional
Temora Shire Council	Large Rural	Rural
Tenterfield Shire Council	Large Rural	Rural
Tweed Shire Council	Regional Town/City	Regional
Upper Hunter Shire Council	Large Rural	Rural
Upper Lachlan Shire Council	Large Rural	Rural
Uralla Shire Council	Large Rural	Rural
Wagga Wagga City Council	Regional Town/City	Regional
Walcha Council	Rural	Rural
Walgett Shire Council	Large Rural	Rural
Warren Shire Council	Rural	Rural
Warrumbungle Shire Council	Large Rural	Rural
Waverley Council	Metropolitan	Metropolitan
Weddin Shire Council	Rural	Rural
Wentworth Shire Council	Large Rural	Rural
Willoughby City Council	Metropolitan	Metropolitan
Wingecarribee Shire Council	Regional Town/City	Regional
Wollondilly Shire Council	Metropolitan Fringe	Metropolitan
Wollongong City Council	Regional Town/City	Regional
Woollahra Municipal Council	Metropolitan	Metropolitan
Yass Valley Council	Large Rural	Rural

Source: OLG classifications and Audit Office of New South Wales.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix three – Sources of information and council classifications

County councils

County council	Geographical region	Classification in this report
Castlereagh-Macquarie County Council	Far West	County
Central Murray County Council	Riverina Murray	County
Central Tablelands County Council	Central West and Orana	County
Goldenfields Water County Council	Riverina Murray	County
Hawkesbury River County Council	Metropolitan Sydney	County
Mid-Coast County Council*	Hunter	County
New England Tablelands County Council	New England North West	County
Riverina Water County Council	Riverina Murray	County
Rous County Council	North Coast	County
Southern Slopes County Council*	South East and Tablelands	County
Upper Hunter County Council	Hunter	County
Upper Macquarie County Council	Central West and Orana	County

*   Mid-Coast and Southern Slopes county councils were dissolved on 1 July 2017.

Source: OLG classifications and Audit Office of New South Wales.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix three – Sources of information and council classifications

Appendix four – Councils amalgamated in 2016

Newly amalgamated council	Former councils	Date of amalgamation
Armidale Regional Council		12 May 2016[1]
	Armidale Dumaresq Council	
	Guyra Shire Council	
Bayside Council		9 September 2016[3]
	City of Botany Bay Council	
	Rockdale City Council	
Canterbury-Bankstown Council		12 May 2016[1]
	Bankstown City Council	
	Canterbury City Council	
Central Coast Council		12 May 2016[1]
	Gosford City Council	
	Wyong Shire Council	
City of Parramatta Council		12 May 2016[2]
	Parramatta City Council	
	The Hills Shire Council	
	Auburn City Council	
	Holroyd City Council	
	Hornsby Shire Council	
Cootamundra-Gundagai Council		12 May 2016[1]
	Cootamundra Shire Council	
	Gundagai Shire Council	
Cumberland Council		12 May 2016[2]
	Parramatta City Council	
	Auburn City Council	
	Holroyd City Council	
Dubbo Regional Council		12 May 2016[1]
	Dubbo City Council	
	Wellington Council	
Edward River Council		12 May 2016[1]
	Conargo Shire Council	
	Deniliquin Council	
Federation Council		12 May 2016[1]
	Corowa Shire Council	
	Urana Shire Council	

NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix four – Councils amalgamated in 2016

Newly amalgamated council	Former councils	Date of amalgamation
Georges River Council		12 May 2016[1]
	Hurstville City Council	
	Kogarah City Council	
Hilltops Council		12 May 2016[1]
	Boorowa Council	
	Harden Shire Council	
	Young Shire Council	
Inner West Council		12 May 2016[1]
	Ashfield Council	
	Leichhardt Municipal Council	
	Marrickville Council	
Mid-Coast Council		12 May 2016[1]
	Gloucester Shire Council	
	Great Lakes Council	
	Greater Taree City Council	
Murray River Council		12 May 2016[1]
	Murray Shire Council	
	Wakool Shire Council	
Murrumbidgee Council		12 May 2016[1]
	Jerilderie Shire Council	
	Murrumbidgee Shire Council	
Northern Beaches Council		12 May 2016[1]
	Manly Council	
	Pittwater Council	
	Warringah Council	
Queanbeyan-Palerang Regional Council		12 May 2016[1]
	Palerang Council	
	Queanbeyan City Council	
Snowy Monaro Regional Council		12 May 2016[1]
	Bombala Council	
	Cooma-Monaro Shire Council	
	Snowy River Shire Council	
Snowy Valleys Council		12 May 2016[1]
	Tumbarumba Shire Council	
	Tumut Shire Council	

1   Local Government (Council Amalgamations) Proclamation 2016 dated 12 May 2016.

2   Local Government (City of Parramatta and Cumberland) Proclamation 2016 dated 12 May 2016.

3   Local Government (Bayside) Proclamation 2016 dated 9 September 2016.

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Appendix five – Status of audits

Below is a summary of the status of the 2016–17 and 2015–16 financial statement audits, including the type of audit opinion and the date it was issued.

2016–17 audits

Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion.	✓	Financial statements were lodged by the statutory deadline of 31 October 2017.	✓
Unmodified opinion with emphasis of matter.	⊖	Extensions to the statutory deadline (and met).	✓
Modified opinion: Qualified opinion, an adverse opinion, or a disclaimer of opinion. Audit report not yet issued.	❗	Financial statements not submitted as at tabling date.	✗

Local council	Type of audit opinion		Date of audit opinion	
Albury City Council	Unmodified	✓	23 October 2017	✓
Armidale Regional Council	Unmodified	✓	7 December 2017	✓
Ballina Shire Council	Unmodified	✓	26 October 2017	✓
Balranald Shire Council	Unmodified	✓	31 October 2017	✓
Bathurst Regional Council	Unmodified	✓	23 October 2017	✓
Bayside Council[6]	Not yet issued	❗	Not yet issued	✗
Bega Valley Shire Council	Unmodified	✓	31 October 2017	✓
Bellingen Shire Council	Unmodified	✓	25 October 2017	✓
Berrigan Shire Council	Unmodified	✓	18 October 2017	✓
Blacktown City Council	Unmodified	✓	26 October 2017	✓
Bland Shire Council	Unmodified	✓	28 February 2018	✓
Blayney Shire Council	Unmodified	✓	24 October 2017	✓
Blue Mountains City Council	Unmodified	✓	31 October 2017	✓
Bogan Shire Council	Unmodified	✓	25 October 2017	✓
Bourke Shire Council	Unmodified	✓	27 October 2017	✓
Brewarrina Shire Council	Unmodified	✓	28 February 2018	✓
Broken Hill City Council	Unmodified	✓	19 October 2017	✓
Burwood Council	Unmodified	✓	18 October 2017	✓
Byron Shire Council	Unmodified	✓	26 October 2017	✓
Cabonne Council	Unmodified	✓	23 October 2017	✓

[6] The Office of Local Government granted Bayside City Council with an extension until 31 May 2018. The council has not yet presented their 2016–17 financial statements for audit as the financial records were not ready. The outcome of this incomplete audit will be reported in next year's report.

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Local council	Type of audit opinion		Date of audit opinion	
Camden Council	Unmodified	✓	27 October 2017	✓
Campbelltown City Council	Unmodified	✓	15 September 2017	✓
City of Canada Bay Council	Unmodified	✓	12 October 2017	✓
Canterbury Bankstown Council	Unmodified	✓	30 November 2017	✓
Carrathool Shire Council	Unmodified	✓	30 October 2017	✓
Central Coast Council	Unmodified	✓	9 March 2018	✓
Central Darling Shire Council	Unmodified (with Emphasis of Matter)	⊖	28 February 2018	✓
Cessnock City Council	Unmodified	✓	11 October 2017	✓
Clarence Valley Council	Unmodified	✓	6 November 2017	✓
Cobar Shire Council	Unmodified	✓	30 November 2017	✓
Coffs Harbour City Council	Unmodified	✓	26 October 2017	✓
Coolamon Shire Council	Unmodified	✓	23 October 2017	✓
Coonamble Shire Council	Unmodified	✓	10 November 2017	✓
Cootamundra-Gundagai Regional Council	Unmodified	✓	30 October 2017	✓
Cowra Shire Council	Unmodified	✓	26 October 2017	✓
Cumberland Council	Unmodified	✓	21 December 2017	✓
Dubbo Regional Council	Unmodified	✓	27 February 2018	✓
Dungog Shire Council	Unmodified	✓	28 February 2018	✓
Edward River Council	Unmodified	✓	15 December 2017	✓
Eurobodalla Shire Council	Unmodified	✓	27 October 2017	✓
Fairfield City Council	Unmodified	✓	25 October 2017	✓
Federation Council	Unmodified	✓	30 October 2017	✓
Forbes Shire Council	Unmodified	✓	30 October 2017	✓
Georges River Council	Unmodified	✓	14 November 2017	✓
Gilgandra Shire Council	Unmodified	✓	22 November 2017	✓
Glen Innes Severn Council	Unmodified	✓	19 December 2017	✓
Goulburn Mulwaree Council	Unmodified	✓	4 December 2017	✓
Greater Hume Shire Council	Unmodified	✓	23 October 2017	✓
Griffith City Council	Unmodified	✓	23 October 2017	✓
Gunnedah Shire Council	Unmodified	✓	20 October 2017	✓
Gwydir Shire Council	Unmodified	✓	31 October 2017	✓
Hawkesbury City Council	Unmodified	✓	27 October 2017	✓
Hay Shire Council	Unmodified	✓	30 October 2017	✓
Hills Shire Council, The	Qualified opinion	❗	29 September 2017	✓

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix five – Status of audits

Local council	Type of audit opinion		Date of audit opinion	
Hilltops Council	Unmodified	✓	29 November 2017	✓
Hornsby, The Council of the Shire of	Unmodified	✓	20 October 2017	✓
Hunters Hill, The Council of the Municipality of	Unmodified	✓	31 October 2017	✓
Inner West Council	Unmodified	✓	27 October 2017	✓
Inverell Shire Council	Unmodified	✓	26 October 2017	✓
Junee Shire Council	Qualified opinion	❗	30 October 2017	✓
Kempsey Shire Council	Unmodified	✓	9 November 2017	✓
Kiama, The Council of the Municipality of	Unmodified	✓	20 November 2017	✓
Ku-ring-gai Council	Unmodified	✓	12 October 2017	✓
Kyogle Council	Unmodified	✓	31 October 2017	✓
Lachlan Shire Council	Unmodified	✓	30 November 2017	✓
Lake Macquarie City Council	Unmodified	✓	24 October 2017	✓
Lane Cove Municipal Council	Unmodified	✓	30 October 2017	✓
Leeton Shire Council	Unmodified	✓	19 October 2017	✓
Lismore City Council	Unmodified	✓	17 October 2017	✓
Lithgow Council, City of	Unmodified	✓	21 November 2017	✓
Liverpool City Council	Unmodified	✓	27 October 2017	✓
Liverpool Plains Shire Council	Unmodified	✓	30 November 2017	✓
Lockhart Shire Council	Unmodified	✓	20 October 2017	✓
Maitland City Council	Unmodified	✓	13 October 2017	✓
Mid-Coast Council	Unmodified	✓	20 December 2017	✓
Mid-Western Regional Council	Unmodified	✓	3 October 2017	✓
Moree Plains Shire Council	Unmodified	✓	27 February 2018	✓
Mosman Municipal Council	Unmodified	✓	25 October 2017	✓
Murray River Council	Unmodified	✓	23 February 2018	✓
Murrumbidgee Council	Unmodified	✓	29 November 2017	✓
Muswellbrook Shire Council	Unmodified	✓	30 October 2017	✓
Nambucca Shire Council	Unmodified	✓	27 October 2017	✓
Narrabri Shire Council	Unmodified	✓	31 October 2017	✓
Narrandera Shire Council	Unmodified	✓	20 October 2017	✓
Narromine Shire Council	Unmodified	✓	26 October 2017	✓
Newcastle City Council	Unmodified	✓	13 October 2017	✓
North Sydney Council	Unmodified	✓	31 October 2017	✓
Northern Beaches Council	Unmodified	✓	20 December 2017	✓

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix five – Status of audits

Local council	Type of audit opinion		Date of audit opinion	
Oberon Council	Unmodified	✓	18 October 2017	✓
Orange City Council	Unmodified	✓	30 October 2017	✓
Parkes Shire Council	Unmodified	✓	5 October 2017	✓
Parramatta Council, City of	Unmodified	✓	13 December 2017	✓
Penrith City Council	Unmodified	✓	26 September 2017	✓
Port Macquarie-Hastings Council	Unmodified	✓	31 October 2017	✓
Port Stephens Council	Unmodified	✓	26 October 2017	✓
Queanbeyan-Palerang Regional Council	Unmodified	✓	27 February 2018	✓
Randwick City Council	Unmodified	✓	13 October 2017	✓
Richmond Valley Council	Unmodified	✓	19 October 2017	✓
Ryde City Council	Unmodified	✓	25 October 2017	✓
Shellharbour City Council	Unmodified	✓	20 October 2017	✓
Shoalhaven City Council	Unmodified	✓	31 October 2017	✓
Singleton Council	Unmodified	✓	27 October 2017	✓
Snowy Monaro Regional Council	Unmodified	✓	22 November 2017	✓
Snowy Valleys Council	Unmodified	✓	27 October 2017	✓
Strathfield Municipal Council	Unmodified	✓	30 October 2017	✓
Sutherland Shire Council	Unmodified	✓	24 October 2017	✓
Sydney, Council of the City of	Unmodified	✓	24 October 2017	✓
Tamworth Regional Council	Unmodified	✓	26 October 2017	✓
Temora Shire Council	Unmodified	✓	23 October 2017	✓
Tenterfield Shire Council	Unmodified	✓	28 November 2017	✓
Tweed Shire Council	Unmodified	✓	27 October 2017	✓
Upper Hunter Shire Council	Unmodified	✓	31 October 2017	✓
Upper Lachlan Shire Council	Unmodified	✓	10 October 2017	✓
Uralla Shire Council	Unmodified	✓	31 October 2017	✓
Wagga Wagga City Council	Unmodified	✓	23 October 2017	✓
Walcha Council	Unmodified	✓	25 October 2017	✓
Walgett Shire Council	Unmodified	✓	23 February 2018	✓
Warren Shire Council	Unmodified	✓	17 October 2017	✓
Warrumbungle Shire Council	Unmodified	✓	16 November 2017	✓
Waverley Council	Unmodified	✓	31 October 2017	✓
Weddin Shire Council	Unmodified	✓	31 October 2017	✓
Wentworth Shire Council	Unmodified	✓	31 October 2017	✓

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix five – Status of audits

Local council	Type of audit opinion		Date of audit opinion	
Willoughby City Council	Unmodified	✓	30 October 2017	☑
Wingecarribee Shire Council	Unmodified	✓	16 October 2017	☑
Wollondilly Shire Council	Unmodified	✓	16 October 2017	☑
Wollongong City Council	Unmodified	✓	10 October 2017	☑
Woollahra Municipal Council	Unmodified	✓	31 October 2017	☑
Yass Valley Council	Qualified opinion	❗	30 October 2017	☑

County council	Type of audit opinion		Date of audit opinion	
Castlereagh Macquarie County Council	Unmodified	✓	28 February 2018	☑
Central Murray County Council	Unmodified	✓	31 October 2017	☑
Central Tablelands County Council	Unmodified	✓	20 November 2017	☑
Former MidCoast Water	Unmodified	✓	22 February 2018	☑
Goldenfields Water County Council	Unmodified	✓	11 October 2017	☑
Hawkesbury River County Council	Unmodified	✓	30 November 2017	☑
New England Tablelands County Council	Unmodified	✓	10 October 2017	☑
Riverina Water County Council	Unmodified	✓	11 October 2017	☑
Rous County Council	Unmodified	✓	18 October 2017	☑
Southern Slopes County Council	Unmodified	✓	31 October 2017	☑
Upper Hunter County Council	Unmodified	✓	30 October 2017	☑
Upper Macquarie County Council	Unmodified	✓	27 October 2017	☑

Water authority	Type of audit opinion		Date of audit opinion	
Central Coast Council Water Supply Authority	Unmodified	✓	9 March 2018	☑
Cobar Water Board	Unmodified	✓	22 September 2017	☑

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Key

Type of audit opinion		Date of audit opinion	
Unmodified opinion.	✅	Financial statements were lodged by the statutory deadline of 31 October 2017.	☑
Unmodified opinion with emphasis of matter.	⊖	Extensions to the statutory deadline (and met).	☑
Modified opinion: Qualified opinion, an adverse opinion, or a disclaimer of opinion.	❗		
Audit report not yet issued.			

Local council	Type of audit opinion		Date of audit opinion	
Armidale Dumaresq Council, The former	Unmodified	✅	14 February 2017	☑
City of Botany Bay Council, The former	Disclaimer of opinion	❗	9 April 2018	☑
Conargo Shire Council, The former	Unmodified	✅	21 December 2016	☑
Deniliquin Council, The former	Unmodified	✅	3 February 2017	☑
Guyra Shire Council, The former	Unmodified	✅	20 December 2016	☑
Liverpool City Council	Unmodified	✅	26 October 2016	☑
MidCoast Water	Unmodified	✅	27 October 2016	☑

County council	Type of audit opinion		Date of audit opinion	
New England Tablelands County Council	Unmodified	✅	5 September 2016	☑

Water authority	Type of audit opinion		Date of audit opinion	
Cobar Water Board	Unmodified	✅	4 October 2016	☑
Gosford Water Supply Water Authority, The former	Disclaimer of opinion	❗	25 May 2017	☑
Wyong Shire Council Water Authority, The former	Unmodified	✅	14 December 2016	☑

Appendix six – Council spending by function – Definitions from the Local Government Code of Accounting Practice and Financial Reporting

Category	Council expenditure on:
Governance	Costs relating to council's role as a component of democratic government, including elections, councillors' fees and expenses, subscriptions to local authority associations, meetings of Council and policy-making committees, public disclosure and legislative compliance.
Administration	Corporate support and other support services, engineering works and council policy compliance.
Public order and safety	Delivery of fire protection, emergency services, beach control, enforcement of regulations and animal control services.
Health	Immunisation, food control and health centres.
Environment	Noxious plants and insect/vermin control, other environmental protection, solid waste management including domestic and other waste, other sanitation, garbage, street cleaning, drainage and stormwater management.
Community services and education	Administration and education, social protection (welfare), migrant, Aboriginal and other community services and administration, youth services, aged and disabled persons services, children's' services including family day care, child care and other family and child services.
Housing and community amenities	Public cemeteries, public conveniences, street lighting, town planning, other community amenities including housing development, accommodation for families, children, aged persons, disabled persons, migrants and Indigenous persons.
Water	Water services.
Sewerage	Sewer services.
Recreation and culture	Public libraries, museums, art galleries, community centres and halls including public halls and performing arts venues, sporting grounds and venues, swimming pools, parks, gardens, lakes and other sporting, recreational and cultural services.
Agriculture	Administration of agricultural services, supervision and regulation of the agricultural industry, operation of flood control and irrigation systems, operation of support services to farmers including vet services, pest control services, crop inspection and crop grading services.
Fuel and energy	Gas supplies.
Mining, manufacturing and construction	Building control, quarries and pits, mineral resources and abattoirs.
Transport and communication	Sealed and unsealed roads, bridges, footpaths, parking areas and aerodromes.
Economic affairs	Camping areas and caravan parks, tourism and area promotion, industrial development promotion, sale yards and markets, real estate development, commercial nurseries and other business undertakings.

Source: Local Government Code of Accounting Practice and Financial Reporting.

Appendix seven – OLG's performance indicators from the audited financial statement - Descriptions

Audited performance indicator	Formula	Description
Operating performance	Total continuing operating revenue# excluding capital grants and contributions less operating expenses / Total continuing operating revenue# excluding capital grants and contributions	The 'operating performances ratio' measures how well local councils contained expenses within revenue. The benchmark set by the Office of Local Government (OLG) for the ratio is greater than zero per cent.
Own source operating revenue	Total continuing operating revenue# excluding all grants and contributions / Total continuing operating revenue# inclusive of all grants and contributions	The 'own source operating revenue ratio' measures a council's fiscal flexibility and the degree to which it relies on external funding sources such as operating grants and contributions. The benchmark set by OLG for the ratio is greater than 60 per cent.
Unrestricted current ratio	Current assets less all external restrictions / Current liabilities less specific-purpose liabilities	The 'unrestricted current ratio' is specific to the local government sector and represents a council's ability to meet its short-term obligations as they fall due. The benchmark set by OLG for the ratio is greater than 1.5 times.
Debt service cover ratio	Operating result# before capital excluding interest and impairment, depreciation and amortisation / Principal repayments plus borrowing costs	The 'debt service cover ratio' measures the operating cash available to service debt including interest, principal and lease payments. The benchmark set by OLG for the ratio is greater than two times.
Rates and annual charges outstanding percentage	Rates and annual charges outstanding / Rates and annual charges collectible	The 'rates and annual charges outstanding ratio' assesses the impact of uncollected rates and annual charges on a council's liquidity and the adequacy of debt recovery efforts. The benchmark set by OLG for the ratio is less than five per cent for metropolitan and less than ten per cent for rural councils.
Cash expense cover ratio	Current year cash and cash equivalents, and term deposits *12 / Payments from cash flow of operating and financing activities	The 'cash expense cover ratio' indicates the number of months a council can continue paying its expenses without additional cash inflows. The benchmark set by OLG for the ratio is greater than three months.

\# Excludes fair value adjustments, reversal of revaluation decrements, net gain/loss on sale of assets, and net share/loss of interests in joint ventures.

Source: Local Government Code of Accounting Practice and Financial Reporting.

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Appendix eight – OLG's performance indicators from the unaudited special schedule 7 - Descriptions

Unaudited performance indicator	Formula	Description
Buildings and infrastructure renewals ratio	Asset renewals / Depreciation, amortisation and impairment	The 'building and infrastructure renewals ratio' assesses the rate at which assets are being renewed against the rate at which they are depreciating. The benchmark set by OLG for the ratio is greater than 100 per cent.
Infrastructure backlog ratio	Estimated cost to bring assets to a satisfactory condition / Carrying value of infrastructure, building, other structures and depreciable land improvement assets	The 'infrastructure backlog ratio' represents the proportion of infrastructure backlog to the total net book value of a council's infrastructure assets. The benchmark set by OLG for the ratio is less than two per cent.
Asset maintenance ratio	Actual asset maintenance / Required asset maintenance	The 'asset maintenance ratio' compares actual versus required annual asset maintenance. The benchmark set by OLG for the ratio is greater than 100 per cent.
Cost to bring assets to agreed service level	Estimated cost to bring assets to an agreed level of service set by council / Gross replacement cost	The 'cost to bring assets to agreed service level' reflects the actual value of identified renewal works to be delivered in the future, compared to the total replacement cost of assets. OLG has not prescribed a benchmark for this performance indicator.

Source: Local Government Code of Accounting Practice and Financial Reporting.

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Appendix nine – Financial information

We have included a summary of key financial information from the 2016–17 audited financial statements of councils.

Local council	2016–17				
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
Albury City Council	139	104	35	1,395	74
Armidale Regional Council	93	77	16	909	48
Ballina Shire Council	115	85	30	1,257	104
Balranald Shire Council	15	13	2	123	5
Bathurst Regional Council	129	93	36	1,325	48
Bayside Council ❗	--	--	--	--	--
Bega Valley Shire Council	96	93	3	1,002	53
Bellingen Shire Council	31	29	2	466	15
Berrigan Shire Council	26	19	7	254	5
Blacktown City Council	583	314	269	4,016	162
Bland Shire Council	29	19	10	400	10
Blayney Shire Council	23	18	5	237	7
Blue Mountains City Council	119	110	9	800	61
Bogan Shire Council	21	17	4	224	5
Bourke Shire Council	29	21	8	256	8
Brewarrina Shire Council	16	13	3	138	5
Broken Hill City Council	37	43	(6)	242	18
Burwood Council	49	42	7	421	23
Byron Shire Council	99	78	21	854	82
Cabonne Council	50	37	13	621	11
Camden Council	189	92	97	1,400	79
Campbelltown City Council	254	143	111	2,639	51
City of Canada Bay Council	110	81	29	1,629	31
Canterbury Bankstown Council	355	314	41	3,707	101
Carrathool Shire Council	24	18	6	231	7

❗ Bayside council received a lodgement extension for the 2016–17 financial statements to 31 May 2018 and has not yet presented them for audit.

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Local council	2016–17				
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
Central Coast Council	724	568	156	7,388	494
Central Darling Shire Council	25	19	6	174	4
Cessnock City Council	95	76	19	789	38
Clarence Valley Council	135	146	(11)	2,130	156
Cobar Shire Council	37	33	4	316	5
Coffs Harbour City Council	219	165	54	2,229	193
Coolamon Shire Council	17	13	4	187	10
Coonamble Shire Council	25	19	6	306	4
Cootamundra-Gundagai Regional Council	49	44	5	416	9
Cowra Shire Council	42	35	7	614	26
Cumberland Council	244	206	38	2,356	68
Dubbo Regional Council	202	141	61	2,549	98
Dungog Shire Council	22	20	2	319	7
Edward River Council	48	38	10	421	9
Eurobodalla Shire Council	129	106	23	1,382	82
Fairfield City Council	195	153	42	1,918	43
Federation Council	54	38	16	504	11
Forbes Shire Council	37	36	1	310	33
Georges River Council	180	140	40	1,412	36
Gilgandra Shire Council	36	28	8	309	20
Glen Innes Severn Council	32	27	5	268	25
Goulburn Mulwaree Council	82	63	19	1,012	55
Greater Hume Shire Council	38	31	7	504	14
Griffith City Council	64	50	14	757	32
Gunnedah Shire Council	47	36	11	463	30
Gwydir Shire Council	28	25	3	434	18
Hawkesbury City Council	94	76	18	1,032	27
Hay Shire Council	14	12	2	81	4

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| Local council | 2016–17 | | | | |
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
The Hills Shire Council ❗	257	130	127	5,026	67
Hilltops Council	85	83	2	605	36
The Council of the Shire of Hornsby	162	118	44	1,660	54
The Council of the Municipality of Hunters Hill	16	16	–	219	6
Inner West Council	316	258	58	2,391	78
Inverell Shire Council	41	33	8	688	13
Junee Shire Council ❗	17	14	3	143	10
Kempsey Shire Council	73	73	–	1,065	59
The Council of the Municipality of Kiama	74	53	21	486	79
Ku-ring-gai Council	151	118	33	1,364	48
Kyogle Council	33	27	6	399	10
Lachlan Shire Council	39	36	3	383	14
Lake Macquarie City Council	288	218	70	2,689	183
Lane Cove Municipal Council	78	38	40	619	13
Leeton Shire Council	31	25	6	245	7
Lismore City Council	121	102	19	1,425	93
City of Lithgow Council	57	48	9	547	34
Liverpool City Council	284	179	105	2,540	86
Liverpool Plains Shire Council	30	26	4	571	10
Lockhart Shire Council	17	10	7	231	3
Maitland City Council	148	97	51	1,110	65
Mid-Coast Council	211	175	36	2,145	113
Mid-Western Regional Council	82	63	19	962	33
Moree Plains Shire Council	67	56	11	572	64
Mosman Municipal Council	52	44	8	507	25
Murray River Council	68	46	22	726	12
Murrumbidgee Council	37	23	14	288	5

❗ The audit reports of these councils included an audit modification.

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| Local council | 2016–17 | | | | |
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
Muswellbrook Shire Council	52	42	10	650	40
Nambucca Shire Council	47	36	11	482	52
Narrabri Shire Council	57	42	15	517	16
Narrandera Shire Council	23	18	5	246	4
Narromine Shire Council	25	19	6	326	6
Newcastle City Council	289	265	24	1,727	190
North Sydney Council	133	106	27	1,001	48
Northern Beaches Council	404	355	49	4,912	143
Oberon Council	19	15	4	295	7
Orange City Council	120	86	34	1,208	50
Parkes Shire Council	69	43	26	711	30
City of Parramatta Council	352	274	78	3,026	148
Penrith City Council	259	207	52	1,916	111
Port Macquarie-Hastings Council	248	149	99	2,204	114
Port Stephens Council	132	110	22	970	51
Queanbeyan-Palerang Regional Council	229	138	91	1,453	68
Randwick City Council	157	147	10	1,557	39
Richmond Valley Council	56	49	7	727	37
Ryde City Council	146	107	39	1,470	41
Shellharbour City Council	122	85	37	844	57
Shoalhaven City Council	258	222	36	2,817	169
Singleton Council	67	54	13	905	24
Snowy Monaro Regional Council	100	85	15	1,222	22
Snowy Valleys Council	72	63	9	626	20
Strathfield Municipal Council	43	34	9	361	15
Sutherland Shire Council	270	205	65	2,426	71
Council of the City of Sydney	722	578	144	12,087	184
Tamworth Regional Council	166	126	40	1,584	120
Temora Shire Council	23	18	5	212	6
Tenterfield Shire Council	26	18	8	366	10

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Local council	2016–17				
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
Tweed Shire Council	230	187	43	3,283	220
Upper Hunter Shire Council	45	39	6	702	26
Upper Lachlan Shire Council	38	26	12	426	10
Uralla Shire Council	21	19	2	248	10
Wagga Wagga City Council	154	121	33	1,485	82
Walcha Council	17	12	5	439	4
Walgett Shire Council	37	29	8	304	9
Warren Shire Council	17	13	4	188	3
Warrumbungle Shire Council	47	42	5	511	15
Waverley Council	138	127	11	1,259	41
Weddin Shire Council	16	12	4	187	8
Wentworth Shire Council	32	25	7	433	9
Willoughby City Council	119	98	21	1,570	75
Wingecarribee Shire Council	144	103	41	1,481	54
Wollondilly Shire Council	65	56	9	504	39
Wollongong City Council	324	255	69	2,536	178
Woollahra Municipal Council	105	90	15	961	110
Yass Valley Council ❗	36	30	6	374	27

Source: Audited financial statements 2016–17.

❗ The audit reports of these councils included an audit modification.

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County council	2016–17				
	Total revenue	Total expenses	Operating result	Total assets	Total liabilities
	$m	$m	$m	$m	$m
Castlereagh-Macquarie County Council	1	1	--	1	--
Central Murray County Council	1	1	--	1	--
Central Tablelands County Council	6	5	1	76	3
Goldenfields Water County Council	21	17	4	308	3
Hawkesbury River County Council	2	2	--	3	1
MidCoast Water (MidCoast County Council)	88	81	7	969	191
New England Tablelands County Council	1	1	--	2	--
Riverina Water County Council	31	20	11	366	18
Rous County Council	27	23	4	506	33
Southern Slopes County Council	1	1	--	1	--
Upper Hunter County Council	2	2	--	1	--
Upper Macquarie County Council	2	2	--	1	--

Source: Audited financial statements 2016–17.

Appendix ten – OLG's performance indicators

We have included a summary of how each council has performed against the performance measures prescribed by the Office of Local Government (OLG). The first six measures are audited and reported in councils' general purpose financial statements. The remaining four asset-related measures are not audited and reported in councils' special schedule 7 'Report on Infrastructure Assets'.

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than zero per cent	Greater than 60 per cent	Greater than 1.5 times	Greater than two times	Less than five per cent for metro and 10 per cent for other councils	Greater than three months	Greater than 100 per cent	Less than two per cent	Greater than 100 per cent	OLG has not set a benchmark
Albury City Council	16.8	79.5	3.3	7.1	10.3	16.2	63.3	3.1	80.7	1.9
Armidale Regional Council	12.3	59.5	2.2	6.0	6.8	14.4	44.1	10.6	96.3	4.3
Ballina Shire Council	8.9	64.6	4.9	2.7	3.6	12.0	84.2	1.9	82.9	0.9
Balranald Shire Council	6.8	31.9	6.2	15.3	10.5	9.4	54.6	2.6	64.7	1.7
Bathurst Regional Council	(5.4)	62.4	2.3	4.1	5.7	10.0	60.2	8.0	158.8	0.7
Bayside Council [10]	--	--	--	--	--	--	--	--	--	--
Bega Valley Shire Council	(2.9)	71.7	1.5	4.4	3.6	10.0	46.4	0.7	95.8	--
Bellingen Shire Council	0.7	66.1	2.5	6.3	5.8	17.7	88.0	11.6	89.3	--
Berrigan Shire Council	22.5	53.9	8.1	34.9	3.7	24.0	80.3	--	114.7	--
Blacktown City Council	3.5	47.5	2.6	--	4.1	19.0	82.9	2.4	99.3	1.6
Bland Shire Council	30.7	37.8	4.0	32.4	6.2	0.3	112.8	5.1	110.5	3.2

[10] Bayside council received a lodgement extension for the 2016–17 financial statements to 31 May 2018 and has not yet presented them for audit.

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NSW Auditor-General's Report to Parliament | Report on Local Government 2017 | Appendix ten – OLG's performance indicators

	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than zero per cent	Greater than 60 per cent	Greater than 1.5 times	Greater than two times	Less than five per cent for metro and 10 per cent for other councils	Greater than three months	Greater than 100 per cent	Less than two per cent	Greater than 100 per cent	OLG has not set a benchmark
Blayney Shire Council	11.0	60.9	3.9	21.1	2.2	15.7	199.9	10.7	145.9	2.5
Blue Mountains City Council	5.4	80.1	2.3	2.6	3.4	4.4	35.1	2.0	99.1	1.2
Bogan Shire Council	14.0	46.2	6.4	52.2	6.8	8.5	67.7	1.9	93.5	2.2
Bourke Shire Council	21.3	40.8	4.3	8.6	14.9	12.9	114.3	3.2	99.9	1.6
Brewarrina Shire Council	19.2	43.5	3.9	24.0	6.8	9.7	87.3	1.9	47.7	–
Broken Hill City Council	(0.9)	62.6	1.8	3.8	11.7	9.9	112.8	25.5	121.6	13.1
Burwood Council	5.6	84.0	4.4	12.4	2.4	11.4	117.7	7.3	102.6	5.2
Byron Shire Council	6.0	69.7	3.2	3.3	3.4	14.3	108.0	7.9	90.7	4.8
Cabonne Council	15.4	56.5	7.8	46.0	5.6	18.4	136.0	3.6	117.8	2.0
Camden Council	0.0	43.0	2.7	3.2	3.4	14.9	38.2	1.2	100.0	1.0
Campbelltown City Council	10.6	64.0	4.8	8.2	3.3	18.0	94.8	1.6	104.9	1.3
Canterbury Bankstown Council	(1.2)	75.7	2.9	18.0	4.0	11.9	75.8	4.7	94.2	2.6
Carrathool Shire Council	19.3	40.7	6.8	30.9	6.1	17.0	79.9	1.3	104.9	–
Castlereagh-Macquarie County Council	9.1	16.5	3.6	2.3	0.0	5.8	–	–	–	–
Central Coast Council	10.7	76.4	2.7	4.5	5.9	9.0	142.2	2.6	104.9	1.7

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	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than zero per cent	Greater than 60 per cent	Greater than 1.5 times	Greater than two times	Less than five per cent for metro and 10 per cent for other councils	Greater than three months	Greater than 100 per cent	Less than two per cent	Greater than 100 per cent	OLG has not set a benchmark
Central Darling Shire Council	18.2	47.4	2.0	33.2	35.7	1.6	94.4	21.1	79.4	2.0
Central Murray County Council	(18.6)	81.2	3.3	–	–	4.4	–	–	–	–
Central Tablelands County Council	4.8	96.1	8.0	3.9	–	19.7	112.4	34.9	99.2	1.4
Cessnock City Council	4.0	63.4	2.4	8.1	2.0	6.3	158.5	3.4	102.2	9.6
City of Canada Bay Council	7.0	80.2	4.2	28.6	1.3	12.9	119.5	3.5	88.7	2.3
City of Lithgow Council	4.2	64.9	3.1	5.4	5.8	9.1	99.2	7.2	81.5	–
City of Parramatta Council	0.4	68.5	4.7	2.9	3.0	6.4	92.5	2.4	103.6	4.3
Clarence Valley Council	(3.8)	69.2	4.4	3.2	6.3	12.0	25.6	4.3	69.0	3.0
Cobar Shire Council	7.5	52.1	4.6	25.1	8.2	6.8	37.1	7.0	82.1	7.2
Coffs Harbour City Council	18.7	74.3	14.8	3.1	6.6	9.1	76.8	–	100.5	–
Coolamon Shire Council	18.9	43.4	8.4	81.6	4.9	19.7	107.4	1.8	139.2	0.9
Coonamble Shire Council	18.3	55.1	6.1	158.4	7.3	19.9	108.7	1.0	262.6	0.7
Cootamundra-Gundagai Regional Council	4.7	44.8	8.5	19.6	4.0	16.4	80.0	10.9	–	–
Council of the City of Sydney	4.9	79.7	2.7	–	1.2	6.5	62.6	3.5	100.1	1.3

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	Audited						Unaudited			
	Operating performance (%)	Own source operating revenue (%)	Unrestricted current ratio (times)	Debt service cover ratio (times)	Rates and annual outstanding percentage (%)	Cash expense cover ratio (months)	Buildings and infrastructure renewals ratio (%)	Infrastructure backlog ratio (%)	Asset maintenance ratio (%)	Cost to bring assets to agreed service level (%)
OLG Benchmark	Greater than zero per cent	Greater than 60 per cent	Greater than 1.5 times	Greater than two times	Less than five per cent for metro and 10 per cent for other councils	Greater than three months	Greater than 100 per cent	Less than two per cent	Greater than 100 per cent	OLG has not set a benchmark
Cowra Shire Council	11.2	71.3	4.0	4.8	9.0	8.9	78.4	1.9	105.4	0.8
Cumberland Council	(2.7)	66.1	3.5	11.4	2.8	7.9	106.1	9.8	125.9	7.2
Dubbo Regional Council	13.2	62.5	3.6	5.9	3.3	16.6	108.5	1.0	100.0	–
Dungog Shire Council	(17.5)	40.5	8.2	11.5	6.0	8.3	92.4	7.0	72.3	10.1
Edward River Council	16.7	39.1	8.6	25.6	5.5	21.9	117.8	1.5	68.6	0.8
Eurobodalla Shire Council	9.7	71.3	2.4	3.4	2.5	14.7	79.2	7.2	100.0	4.5
Fairfield City Council	11.4	77.0	3.1	146.3	3.1	4.9	170.5	1.9	100.8	1.4
Federation Council	6.3	40.0	2.7	27.9	5.5	18.7	108.5	5.8	95.8	3.7
Forbes Shire Council	(0.5)	68.3	7.4	3.4	10.3	15.4	36.2	3.7	94.0	1.7
Georges River Council	11.3	76.2	4.4	46.0	2.7	9.5	116.3	1.8	127.9	3.8
Gilgandra Shire Council	19.4	63.5	4.3	18.4	6.5	9.8	192.9	2.3	102.2	1.7
Glen Innes Severn Council	12.8	58.7	5.2	4.3	4.7	9.9	97.0	10.9	100.0	6.0
Goldenfields Water County Council	14.3	95.0	6.0	–	23.8	49.8	22.8	4.4	105.2	0.6
Goulburn Mulware Council	7.9	61.0	3.6	5.7	3.1	24.5	125.8	2.5	99.9	–
Greater Hume Shire Council	13.0	48.5	5.5	13.2	6.8	13.0	156.3	0.1	145.0	0.1

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OLG Benchmark	Greater than zero per cent	Greater than 60 per cent	Greater than 1.5 times	Greater than two times	Less than five per cent for metro and 10 per cent for other councils	Greater than three months	Greater than 100 per cent	Less than two per cent	Greater than 100 per cent	OLG has not set a benchmark
Griffith City Council	15.1	74.3	2.5	8.0	6.8	7.1	63.7	–	–	–
Gunnedah Shire Council	19.9	65.1	6.1	18.7	4.3	26.2	120.7	2.4	120.2	1.6
Gwydir Shire Council	16.5	52.0	2.0	6.8	4.4	4.8	113.5	3.1	100.0	–
Hawkesbury City Council	(6.6)	68.4	3.3	11.5	5.5	8.9	131.9	3.1	95.2	–
Hawkesbury River County Council	(11.6)	23.3	2.8	–	–	10.1	113.6	–	–	–
Hay Shire Council	11.3	39.1	5.0	15.8	13.3	12.2	76.0	3.1	72.4	1.4
The Hills Shire Council*	16.2	50.5	8.5	–	4.2	42.5	216.8	–	154.0	–
Hilltops Council	(6.6)	44.6	5.5	2.3	6.8	12.1	78.6	6.5	97.8	1.1
The Council of the Shire of Hornsby	6.9	79.3	3.9	10.7	1.9	20.7	90.7	0.9	94.0	0.7
The Council of the Municipality of Hunters Hill	(4.2)	90.7	7.3	23.0	3.0	16.5	76.6	1.6	105.8	1.7
Inner West Council	4.4	74.6	3.3	5.2	3.1	8.8	145.5	9.6	100.0	3.6
Inverell Shire Council	20.4	61.3	12.0	19.3	5.8	25.1	192.2	1.1	106.2	0.8
Junee Shire Council*	9.9	53.8	1.0	4.2	8.8	3.0	156.5	4.7	81.2	2.4
Kempsey Shire Council	1.9	72.6	2.6	3.8	6.7	9.3	38.9	10.6	107.3	5.4

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The Council of the Municipality of Kiama	4.4	60.4	3.9	8.7	1.5	10.7	199.2	0.3	95.9	–
Ku-ring-gai Council	9.0	82.4	3.2	13.5	3.3	13.9	76.5	4.5	103.6	–
Kyogle Council	17.2	49.6	6.3	27.9	7.2	17.2	281.8	10.7	100.5	–
Lachlan Shire Council	11.3	38.3	4.6	137.9	7.5	16.8	42.0	6.4	93.5	4.1
Lake Macquarie City Council	9.0	65.6	2.9	10.3	3.7	10.9	112.8	2.5	92.2	1.7
Lane Cove Municipal Council	11.0	68.6	6.7	–	1.9	19.2	294.2	0.7	325.1	0.6
Leeton Shire Council	16.2	69.0	4.5	28.3	3.1	20.7	54.0	3.0	100.8	1.8
Lismore City Council	6.5	74.4	1.5	4.0	10.5	9.1	144.9	19.9	93.0	9.8
Liverpool City Council	2.4	54.5	1.9	4.7	4.3	8.5	115.8	3.3	104.5	2.5
Liverpool Plains Shire Council	4.5	55.3	4.5	12.9	9.8	15.3	140.3	2.4	–	1.8
Lockhart Shire Council	40.5	23.3	4.8	100.5	4.5	11.3	106.9	1.3	106.5	–
Maitland City Council	0.3	54.1	3.2	4.6	2.1	14.5	87.0	10.1	133.8	3.7
Mid-Coast Council	(0.3)	55.2	4.5	3.4	4.1	10.6	65.6	8.5	75.5	4.4
MidCoast Water (MidCoast County Council)	(2.2)	57.1	2.3	1.9	6.0	8.8	5.4	13.5	73.7	–

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Mid-Western Regional Council	9.6	55.2	3.7	8.7	3.4	16.7	137.3	6.6	108.5	2.9
Moree Plains Shire Council	13.5	68.1	2.4	5.4	6.3	8.3	114.9	1.9	95.0	1.4
Mosman Municipal Council	6.2	87.7	1.7	4.1	2.6	4.7	138.0	1.1	115.7	0.7
Murray River Council	17.7	39.4	5.1	17.8	7.2	20.1	95.1	3.4	100.0	1.1
Murrumbidgee Council	5.5	27.1	4.2	45.5	7.1	22.1	41.0	0.5	128.0	–
Muswellbrook Shire Council	8.1	70.3	5.3	4.9	14.9	10.3	93.5	6.1	83.1	3.5
Nambucca Shire Council	17.8	66.1	2.5	3.4	5.1	10.9	62.6	3.9	97.9	–
Narrabri Shire Council	16.1	56.8	5.2	13.1	7.6	19.5	136.9	12.1	110.6	–
Narrandera Shire Council	17.4	52.2	7.6	806.7	7.5	23.3	96.2	9.7	98.0	3.8
Narromine Shire Council	18.7	47.9	5.4	20.0	9.2	19.9	93.4	11.6	60.4	6.1
New England Tablelands County Council	2.7	22.3	5.7	--	–	14.9	–	–	–	–
Newcastle City Council	3.5	64.3	2.5	7.4	4.2	8.7	94.9	11.1	117.6	6.1
North Sydney Council	7.7	80.3	3.5	84.3	1.1	7.8	289.0	–	99.5	–
Northern Beaches Council	1.3	81.1	2.7	1.0	2.8	5.9	92.2	0.3	103.7	0.3
Oberon Council	20.9	63.8	4.6	12.1	7.7	11.8	224.8	4.2	93.8	0.6

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Orange City Council	11.7	67.5	1.6	6.9	5.7	13.6	52.5	4.1	32.8	2.6
Parkes Shire Council	8.0	46.4	3.2	4.8	6.4	13.8	272.6	1.4	115.0	0.6
Penrith City Council	7.4	71.9	2.5	3.2	3.0	6.5	45.5	1.1	100.7	0.7
Port Macquarie-Hastings Council	7.3	56.2	2.0	4.3	4.9	25.3	82.2	5.3	87.8	—
Port Stephens Council	7.1	76.6	3.3	6.4	2.8	5.8	100.0	1.8	93.3	1.6
Queanbeyan-Palerang Regional Council	5.8	52.4	2.4	8.0	3.4	9.0	140.7	2.9	67.3	2.1
Randwick City Council	3.7	89.6	3.3	—	2.8	3.8	107.0	0.6	154.8	0.4
Richmond Valley Council	7.5	68.1	3.5	5.0	14.9	7.0	82.9	3.8	113.8	2.7
Riverina Water County Council	31.0	90.1	7.5	9.0	12.4	16.0	104.8	29.3	101.7	19.8
Rous County Council	4.8	81.3	6.1	2.5	0.0	21.0	62.2	1.3	89.4	1.0
Ryde City Council	11.5	75.8	3.4	27.7	3.6	15.9	193.6	2.7	92.9	2.0
Shellharbour City Council	9.0	70.4	2.5	19.6	4.6	11.1	232.7	2.0	112.6	2.8
Shoalhaven City Council	2.6	77.7	2.0	3.7	8.9	9.9	71.7	3.1	88.5	1.5
Singleton Council	(1.6)	64.0	2.9	6.3	3.2	13.4	107.1	2.1	62.7	1.3

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Snowy Monaro Regional Council	1.5	49.8	3.7	14.2	14.3	15.3	55.1	11.8	96.9	3.3
Snowy Valleys Council	3.4	56.4	6.0	7.4	4.2	12.0	82.7	–	101.4	3.3
Southern Slopes County Council	5.1	75.3	8.6	–	–	9.0	–	–	–	–
Strathfield Municipal Council	4.9	73.4	3.6	–	3.0	22.1	127.8	1.5	115.3	1.0
Sutherland Shire Council	9.3	76.4	2.4	21.2	3.6	6.1	57.6	1.8	101.0	3.4
Tamworth Regional Council	12.4	68.7	4.4	5.2	5.2	19.4	39.0	0.6	97.4	–
Temora Shire Council	14.3	51.9	2.1	22.2	3.8	6.6	64.7	3.5	118.3	–
Tenterfield Shire Council	15.7	45.3	4.4	11.8	6.8	12.6	135.4	8.9	101.3	1.7
Tweed Shire Council	11.3	74.4	3.5	3.7	4.4	20.7	44.2	1.7	92.9	–
Upper Hunter County Council	13.7	4.1	3.9	–	–	2.3	–	–	–	–
Upper Hunter Shire Council	9.9	66.6	3.0	7.2	8.5	10.1	139.9	0.9	96.4	0.5
Upper Lachlan Shire Council	16.5	52.1	5.1	25.5	3.4	19.3	136.5	1.7	118.4	1.0
Upper Macquarie County Council	3.6	43.5	10.0	–	–	5.5	–	–	–	–
Uralla Shire Council	11.6	71.3	2.1	16.7	4.3	10.5	86.6	0.9	131.8	0.3

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Wagga Wagga City Council	(6.4)	59.2	3.1	5.4	5.1	7.2	39.7	28.4	55.8	11.9
Walcha Council	16.7	50.3	4.5	38.3	3.4	10.6	309.2	7.3	105.5	2.9
Walgett Shire Council	20.2	52.0	5.7	17.9	10.4	16.3	142.1	8.9	73.0	4.6
Warren Shire Council	23.0	47.6	7.5	62.6	2.5	17.7	143.5	0.8	158.3	—
Warrumbungle Shire Council	2.0	46.5	4.3	9.9	7.9	6.5	64.4	0.1	117.6	1.8
Waverley Council	2.4	86.5	12.4	20.3	3.8	14.5	77.1	1.1	98.2	0.7
Weddin Shire Council	19.9	44.2	5.2	42.5	5.9	11.9	293.8	2.2	100.7	—
Wentworth Shire Council	13.4	48.0	6.9	42.3	10.2	18.0	100.7	12.7	119.3	4.3
Willoughby City Council	12.7	89.8	4.7	6.0	1.4	14.4	98.3	1.4	100.0	1.2
Wingecarribee Shire Council	9.0	67.0	4.9	6.0	2.2	18.9	80.9	2.1	105.7	1.2
Wollondilly Shire Council	0.9	69.7	3.0	4.2	5.2	10.4	99.4	15.3	123.9	8.4
Wollongong City Council	10.7	74.7	2.6	8.5	5.9	6.9	104.9	5.7	98.1	3.7
Woollahra Municipal Council	4.3	90.4	3.9	3.0	4.1	7.0	103.1	1.4	99.7	0.9
Yass Valley Council*	(2.3)	63.7	1.8	2.6	4.0	7.6	106.7	2.6	95.4	—

* The audit report of this council was subject to an audit qualification.

The council met the benchmark prescribed by OLG for the relevant performance measure.

The council did not meet the benchmark prescribed by OLG for the relevant performance measure.

Source: First six measures are obtained from the audited financial statements 2016–17. Last four measures are obtained from the unaudited Special Schedule 7 'Report on Infrastructure Assets' 2016–17.

Appendix 11 – NSW Crown Solicitor's advice

CROWN SOLICITOR
NEW SOUTH WALES

Advice

Audit of council entities

Contents

Prepared for: AUD018 Auditor-General of NSW
Date: 31 August 2017
Client ref: Steven Martin
CSO ref: 201702268 T08 Sally Johnston/Lea Armstrong

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CROWN SOLICITOR'S OFFICE NEW SOUTH WALES   2

1.   Summary of advice

1.1   You seek my advice as to the Auditor-General's obligations with regard to auditing of "council entities" pursuant to the *Local Government Act 1993* ("the Act"). Pursuant to s. 415(4), a council's auditor (who is the Auditor-General: s 422) must, in auditing the financial reports of a council, audit the financial reports of any council entity and report on same as part of the report on the council. You have proposed an interpretation of this provision for my comment.

1.2   In my view, it is clear that the obligation to audit a council entity in s. 415(4) forms a part of the audit of the council. As to what such "audit" involves, the preferable interpretation must take account of both the lack of any obligation in the Act for council entities to prepare financial reports, and the functions and powers of the Auditor-General in relation to the audit of such entities in the Act. Whilst the Auditor-General's audit functions in relation to councils in Div. 3 of Pt. 3 of Ch. 13 are extended to council entities, the accounting and financial reporting obligations of councils generally in Divs. 1 and 2 of that Part are not so extended. Given the diverse range of bodies which may constitute a "council entity", whether or not such an entity has prepared a financial report will depend on statutory obligations elsewhere arising and, in my view, where no financial report of a council entity exists, the obligation to audit that entity in s. 415(4) does not arise. Where the obligation does arise, it may necessarily be limited by the nature of the council entity in question and the financial reports which it does prepare.

1.3   For those reasons, to the extent that your proposed construction of the duty in s. 415(4) is that the Auditor-General (as the council auditor) is required to perform "those audit procedures on a council entity considered necessary to form an opinion on the council's consolidated general purpose financial report", I think that is a reasonable and open interpretation of the duty, where it arises.

1.4   Insofar as your proposed construction of the duty in s. 415(4) also suggests that "any matters as appropriate in respect of a council entity are included in the report on the conduct of the audit of the council's financial report required pursuant to s. 417(1) of the Act", I agree to the extent that the duty in s. 415(4) is discharged by the auditor reporting on the council entity audit in the auditor's report on the council, which is a reference to the two reports to be issued under s. 417(1).

1.5   Please note this is a summary of the central issues and conclusions in my advice. Other relevant or significant matters may be contained in the advice, which should be read in full.

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CROWN SOLICITOR'S OFFICE NEW SOUTH WALES   3

2. Background

2.1   By operation of the *Local Government Amendment (Governance and Planning) Bill 2016*, the Act was amended and ss. 415(4) and (5) were inserted. Section 415(4) relates to auditing of a "council entity" and s. 415(5) defines such entities. Your request for advice arises in the context where this provision has come into effect but no audits have yet been completed pursuant to it.

2.2   I note that conferences to discuss the background, issues and question for advice have been conducted between your officers and my officers on 21 July 2017 and 11 August 2017.

3. Advice sought

3.1   By letter dated 26 July 2017, you seek my advice as to whether:

> "In acquitting my responsibility under the Act, is it reasonable to interpret that I will satisfy my obligations under the Act if, when auditing the financial report of a council, I perform those audit procedures on any Council Entity considered necessary to form an opinion on the council's consolidated general purpose financial report and include any matters I consider appropriate in respect of Council Entities in my report on the conduct of the audit of the council's financial report required under s. 417(1) of the Act?"

4. Advice

4.1   Chapter 13 of the Act is entitled "How are councils made accountable for their actions?", with Pt. 3 addressing "Financial management" and Div. 2 of that Part "Accounting records, financial reports and auditing". Section 415 provides:

> "**415 Auditing of financial reports**
>
> (1)   A council's auditor must audit the council's financial reports as soon as practicable (having regard to the requirements of section 416 (1)) after they are referred for audit.
>
> (2)   A council's financial reports must be audited in accordance with the requirements of:
>
>   (a)   the publications issued by the Australian Accounting Research Foundation, on behalf of the Australian Society of Certified Practising Accountants and the Institute of Chartered Accountants in Australia, under the titles *Statements of Auditing Standards* and *Statements of Auditing Practice*, as in force for the time being, subject to the regulations, and
>
>   (b)   such other standards as may be prescribed by the regulations.

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(3) The regulations may prescribe matters that an auditor must consider and provide comment on in auditing a council's financial reports.

(4) In auditing the financial reports of the council, a council's auditor must also audit the financial reports of any council entity and report on that audit as part of the report on the council by the auditor.

(5) In this Part:

council entity means:

(a) a partnership, trust, corporation, joint venture, syndicate or other body (whether or not incorporated) that a council has formed or participated in forming or has acquired a controlling interest in, other than an entity of a class prescribed by the regulations, or

(b) any other entity of a class prescribed by the regulations."

"Council entity"

4.2 In considering the scope of the duty in s. 415(4), it is first necessary to understand the nature of a "council entity", to which that duty relates. A "council entity" is defined for purposes of Pt. 3 of Ch. 13 of the Act in s. 415(5), as extracted above. There are currently no regulations made pursuant to s. 415(5)(a) or (b). In my view, the ordinary meaning and effect of the definition in s. 415(5)(a) is that a wide and diverse range of bodies may constitute a "council entity".

4.3 The definition operates by reference to factual matters. First, whether the entity in question is a "partnership, trust, corporation, joint venture, syndicate" or other type of body, and second, whether the council has "formed or participated in forming" or acquired a "controlling interest" in that body, both of which are questions of fact. To that end, I note that the phrase "controlling interest" is used in other relevant statutory regimes, particularly taxation contexts[1]. Whether a council has a "controlling interest" in relation to some other entity will usually be a factual test adapted to the particular type and nature of the entity in question. In the context of audit of financial statements, the Auditor-General would typically refer to Australian Accounting Standards AASB 10 'Consolidated Financial Statements' for guidance on what constitutes a "control".

4.4 It is clear that a "council entity" is potentially a very broad concept. There are a diverse range of entities which may constitute council entities, from unincorporated bodies or associations to large corporations. In turn, these bodies may be subject to different legislative regimes which impact upon their financial management, record keeping and

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[1] See, for example, the *Payroll Tax Act 2007*. In the companies context, the phrase has a generally settled meaning of control of a majority of voting power at meetings of the board of management/ meeting of directors, power to appoint more than 50% of the members of a board of management/ directors, or direct or indirect exercise of control of more than 50% of the voting power attached to voting shares or a class of voting shares issued by a company (as applicable).

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auditing. For example, no relevant statutory provisions may exist in relation to a small unincorporated body and such a body may not keep or generate financial statements etc. By contrast, a corporation may be subject to the provisions in the *Corporations Act 2001 (Cth)* which include record keeping and accounting obligations consistent with the standards made by the Australian Accounting Standards Board. This diversity in the potential range of bodies constituting "council entities" has implications for the practical operation of s. 415(4), as discussed below.

4.5   I also note that a comparable concept, although not expressly defined as a "council entity", is referred to in s. 358 of the Act. That section provides:

> "**358 Restrictions on formation of corporations and other entities**
>
> (1)   A council must not form or participate in the formation of a corporation or other entity, or acquire a controlling interest in a corporation or other entity, except:
>
>   (a)   with the consent of the Minister and subject to such conditions, if any, as the Minister may specify, or
>
>   (b)   as provided by this Act.
>
>   ...
>
> (4)   In this section, *entity* means any partnership, trust, joint venture, syndicate or other body (whether or not incorporated), but does not include any such entity that is of a class prescribed by the regulations as not being within this definition."

4.6   In my view, s. 358 (particularly s. 358(1) and (4), adopt the same concepts as those in s. 415(5), namely "formation or participation in formation" and acquiring a "controlling interest" in relation to a corporation or "entity". In that way, the sections are equivalent in material elements and should be understood as encompassing the same entities. Indeed, in my view, one practical way of identifying which entities constitute "council entities" for purposes of s. 415(5) would be to consider those entities which have been subject to Ministerial review pursuant to s. 358. Having said that, it is not my view that an entity does not constitute a "council entity" for purposes of s. 415 merely because it has not been subject to review pursuant to s. 358 (for example, in the situation where there has been non-compliance with the requirement for Ministerial approval in s. 358).

Nature of obligation in s. 415(4)

4.7   I note that the Auditor-General is the auditor for a council: s. 422(1). In that capacity, the duty imposed on the Auditor-General pursuant to s. 415(4) is that:

> "In auditing the financial reports of the council, a council's auditor must also audit the financial reports of any council entity and report on that audit as part of the report on the council by the auditor."

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4.8   The duty in s. 415(4) arises and falls upon the Auditor-General in her capacity as the council's auditor. The Act does not appoint the Auditor-General (or any other person) as the independent statutory auditor of a council entity. Indeed, a council entity may have its own auditor. Rather, a duty to "audit the financial reports" of the council entity arises in the Auditor-General in her capacity as the *council's* auditor.

4.9   That being said, a duty to "audit the financial reports" of a body, in this case a council entity, is ordinarily the duty of that body's auditor. So too I understand that an "audit of a financial report" usually entails an auditor issuing an opinion on that financial report, *qua* auditor of the body. There is a clear tension in s. 415(4) between the fact that the Auditor-General is not the auditor of the council entity and yet is required to "audit" its financial report.

4.10   As a result, the scope and nature of the duty to "audit" the financial reports of a council entity pursuant to s. 415(4) is open to doubt. Nonetheless, I think the following points can be made about the preferable interpretation of that duty.

4.11   I note that "audit" is not a defined term in the Act (although pursuant to s. 421A it "includes examination and inspection"), nor does it have a clearly settled meaning in law generally. Rather, legislation typically sets the framework for auditing in relation to particular bodies. For example, the Auditor-General's role in auditing councils is detailed in s. 417, which provides for matters such as inclusions in the auditor's financial report and matters on which the opinion or statement of the Auditor-General is required.

4.12   It is clear, from the introductory words of s. 415(4) "*in auditing* the financial reports of the *council*..." (emphasis added), that the "audit" of the financial reports of a council entity forms part of the process of, or is a corollary to, the audit of the council. However, it is presumably not equivalent to the audit of the council, which is addressed in ss. 415(1)-(3), or the terms of s. 415(4) would be rendered otiose. For example, it must presumably go beyond the audit of financial transactions between the council and council entity which would already be encompassed by the terms of the audit of the council pursuant to ss. 415(1)-(3).

4.13   The apparent purpose of s. 415(4) is to provide that council entities must be considered or examined in conducting the audit of a council. As noted in the second reading speech for the amending bill[2] which introduced the now s. 415(4) and (5):

> "The bill... support(s) the financial transparency of councils... under the amendments introduced by the bill, councils will become subject to oversight by the Auditor-General for their general audits and those of their subsidiary entities..."[3]

[2] *Local Government Amendment (Governance and Planning) Bill 2016.*

[3] NSW Legislative Assembly, *Hansard*, 22 June 2016, Second Reading speech, Mr Paul Toole (Minister for Local Government).

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("Subsidiary entities" apparently being used to refer to "council entities".)

4.14 In that way, the provision mirrors the requirement in s. 358 for Ministerial approval for council establishment of, or involvement in, such entities, by providing for ongoing oversight of the relationship between the council and the council entity, at least in a financial sense. However, as noted above, exactly what the additional obligation introduced by s. 415(4) is, and how it is to be fulfilled, is unclear and beset with practical difficulties.

4.15 Significantly, ss. 423 and 424 support the audit obligation in s. 415(4) by extending to "council entities" as well as councils: see s. 423(6) and 424(3). Pursuant to s. 423, the Auditor-General (or a person authorised by the Auditor-General) is entitled at all reasonable times to full and free access to a council's (or council entity's) accounting records and other records necessary in order to carry out her functions. She may direct persons to produce books, record or other documents in their custody or control, to appear personally and produce such documents, to answer any relevant question, to provide any necessary authorities to gain access to such documents, and to make copies or take extracts from such documents for the purposes of an audit or inspection carried out under the Act.

4.16 Pursuant to s. 424, the Auditor-General (or a person authorised by the Auditor-General) may direct an authorised deposit-taking institution or the person in charge of a council (or council entity) account in such an institution to give her a statement of the account or certificate as to the balance of the account and produce to her any relevant book, record or other document in its custody or control. The effect of these provisions is that the Auditor-General's functions and powers under Div. 3 ("Auditors") of Pt. 3 of Ch. 13 of the Act are extended to apply to council entities in the same way they apply to councils. This may suggest an equivalent "audit" function is intended in relation to council entities, as applies to councils.

4.17 However, the provisions of Div. 1 ("Funds") and Div. 2 ("Accounting records, financial reports and auditing) of Pt. 3 of Ch. 13 of the Act are not uniformly extended to encompass council entities in the same way as they apply to councils. Of particular significance, ss. 412 and 413, which provide that a council must keep accounting records and prepare financial reports respectively, do not extend to council entities.

4.18 For this reason, there is no obligation pursuant to the Act for council entities to prepare financial reports, equivalent to that which applies to councils. To some extent, financial information about council entities may be included in the council's financial reports, which must be prepared in accordance with s. 413. That includes a requirement in s. 413(3)(a) that the financial statement be prepared in accordance with the publications in force issued by the Australian Accounting Standards Board, and would pick up controlled entities pursuant to those standards. Such controlled entities would

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presumably also be "council entities" for purposes of s. 415(5) (although only a subset of the range of entities which may be council entities). However, it is for the council to determine appropriate compliance with s. 413 (although the Auditor-General may review this as part of her audit and report under s. 417). Even if, by that means, financial information about council entities is captured in the council's financial report, in my view, this has little application in terms of the s. 415(4) obligation. That is because the s. 415(4) "audit" obligation applies to "financial reports *of the* council entity" (emphasis added) and not the council's financial reports *per se.*

4.19 As noted in my discussion above about the diverse range of bodies potentially encompassed by the definition of "council entity", whether or not a council entity has prepared such a financial report will depend upon the nature of the entity and whether it is required to do so pursuant to other statutory regimes. In my view, that necessarily limits the operation of s. 415(4) to only those council entities which have such obligations elsewhere arising or which voluntarily prepare such reports, given the plain words of s. 415(4), that the audit is of "...the *financial reports* of any council entity..." (emphasis added).

4.20 In addition, it may limit the Auditor-General's ability to perform audit functions in relation to those financial reports, even where they do exist, depending upon the framework in which they have been prepared. As there is no means to compel a council entity to prepare a financial report in a particular manner pursuant to the Act, in my view the obligation in s. 415(4) upon the Auditor-General to audit the financial reports of a council entity can only extend to that which is reasonably possible having regard to the particular entity. It may be that, in practice, the Auditor-General can only comment on the limitations which apply to her audit.

4.21 In summary, it is clear that, whilst there is a diverse range of bodies which may constitute a "council entity", the obligation in s. 415(4) only arises in relation to "financial reports" and so only applies in relation to council entities which do prepare such financial reports. As to the nature of the duty to audit those financial reports, there are indications that s. 415(4) was intended to impose a duty of auditing of council entities which goes beyond that which would flow from proper auditing of the council in accordance with s. 415(2), and yet the scope of that duty is necessarily limited by the statutory context, functions and powers which are available to support it. The statutory language of s. 415(4) in my view reveals an intention to impose a duty on the council auditor in his or her capacity as council auditor (not as auditor of the council entity), and in the context of performing his or her audit of the council. That is, it is not an equivalent duty to that imposed in relation to the council, for which the Auditor-General is the auditor. Rather, the audit of the financial reports of the council entity must form, in some way, a component or part of the audit of the council.

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4.22   It is, in a practical sense, difficult to articulate precisely what that "audit" duty involves in the context of s. 415(4), beyond noting these features which point to it being less than equivalent to the role of an external auditor of the council entity (or equivalent to the audit of the council itself) and yet more than what would already be encompassed by the audit of the council pursuant to s. 415(1)-(3). What can be said is that the audit of the financial reports of a council entity should be conducted to the fullest extent necessary and possible to provide a report on that audit in the council report, in light of the audit functions and powers which the Auditor-General acquires in relation to both councils and council entities pursuant to Div. 3 of Pt. 3 of Ch. 13, especially ss. 423 and 424, as outlined above.

Conclusion re: proposed interpretation

4.23   Given the uncertainties about the scope of the duty in s. 415(4), outlined above, in my view your proposed construction of the duty is both reasonable and open. That is, your suggestion that the duty in s. 415(4) is that the Auditor-General (as the council auditor) is required to perform "those audit procedures on a council entity considered necessary to form an opinion on the council's consolidated general purpose financial report", is a clearly arguable interpretation of the duty, where it arises. I note that, strictly, I would prefer to phrase it as "those audit procedures necessary to form an opinion on the council's financial reports", but given that the report required pursuant to s. 417(1) of the Act is a report as to the council's general purpose financial report, I do not disagree with your phrasing. I also observe that, whilst an "audit of the financial reports" of a body may in other contexts generally be understood to require the issuing of an opinion by the auditor, in my view, the statutory context and fact that the Auditor-General performs the function in s. 415(4) in her capacity as auditor of the council, make it arguable that the duty can be discharged through performing "audit procedures" rather than necessarily requiring the issuance of an opinion by the auditor.

4.24   To the extent that your proposed construction of the duty in s. 415(4) also suggests that "any matters as appropriate in respect of a council entity are included in the report on the conduct of the audit of the council's financial report required pursuant to s. 417(1) of the Act", I agree that the duty in s. 415(4) is discharged by the auditor reporting on the council entity audit in the report on the council. The reference in section s. 415(4) to "the report on the council by the auditor" is, in my view, a reference to either of the two reports made under s. 417(1).

Comment: possible means to resolve uncertainty

4.25   The relevant provisions of the Act contain several powers for matters to be prescribed by regulation, which could assist to resolve the uncertainty and practical difficulties surrounding the operation of s. 415(4). The preparation and promulgation of regulations is a matter on which Parliamentary Counsel's advice should be sought, but I note the powers of regulation contained in s. 415(5)(a) and (b) as a potential means to clarify or limit the scope of the definition of "council entity", and the power in s. 415(3)

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to regulate what matters an auditor must consider and provide comment on in auditing a council's financial reports, which could in turn assist to clarify the scope of the audit required pursuant to s. 415(4), given that such audit is performed as part of the audit of the council financial reports.

Signed:

Lea Armstrong
Crown Solicitor

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